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United Nations

United Nations Population Fund

Financial report and audited financial statements

for the biennium ended 31 December 2003 and

Report of the Board of Auditors

General Assembly
Official Records
Fifty-ninth Session
Supplement No. 5G (A/59/5/Add.7)

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United Nations • New York, 2004

Note

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Letters of transmittal

30 April 2004

Pursuant to Financial Rule 116.2 of the United Nations Population Fund, I have the honour to submit the financial statements of the Fund for the biennium ended 31 December 2003, which I hereby approve.

Copies of these statements are also being transmitted to the Advisory Committee on Administrative and Budgetary Questions.

(*Signed*) Thoraya Ahmed **Obaid**
Under-Secretary-General

The Chairman of the Board of Auditors
United Nations
New York

9 July 2004

I have the honour to transmit to you the financial statements of the United Nations Population Fund for the biennium 2002-2003 ended 31 December 2003, which were submitted by the Executive Director. These statements have been examined by the Board of Auditors.

In addition, I have the honour to present the report of the Board of Auditors with respect to the above accounts, including an audit opinion thereon.

(*Signed*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa
Chairman
United Nations Board of Auditors

The President of the General Assembly
of the United Nations
New York, N.Y.

Chapter I

Financial report for the biennium ended 31 December 2003

1. The present report summarizes the information provided in the financial statements of the United Nations Population Fund (UNFPA) for the biennium ended 31 December 2003.

2. The financial statements comprise four statements, eight schedules and notes. Information on the operations funded by both the regular and other resources of UNFPA, which include trust funds, are included in the financial statements.

A. Regular resources

1. Income

3. Contribution income for the biennium was $538.6 million (2000-2001: $514.9 million). The increase of $23.7 million or 4.6 per cent was achieved despite the decision of a major donor to withdraw funding completely at the beginning of 2002 and is attributable to the continued support of other donors, together with the fall in value of the United States dollar over the period.

4. Exchange adjustments, which record the gain or loss on exchange incurred from the date when the contribution pledge is made and the date, invariably later, when the contribution is received, reflect the movement in the value of the United States dollar. Adjustments in the current biennium have resulted in a net gain of $10.4 million (2000-2001: net loss of $5.5 million).

5. Low interest rates throughout the period gave rise to interest income for the biennium of $8.3 million (2000-2001: $13.3 million).

6. Other income of $5.2 million (2000-2001: $4.4 million) comprises savings arising from the liquidation of prior period obligations, other exchange adjustments and miscellaneous income.

2. Programme expenditure

7. Programme expenditure authority was $398.1 million for the biennium ended 31 December 2003 (2000-2001: $467.4 million).

8. Actual programme expenditure for the biennium, which includes expenditure in respect of programme activities, the Technical Advisory Programme and programme support services, totalled $421.5 million (2000-2001: $344.2 million).

9. Expenditure incurred in respect of the programme activities increased from $299.2 million in the last biennium to $380 million in the current biennium. This increase is attributable in large part to the balance of unexpended resources carried forward from previous bienniums.

10. Programme activities are summarized by implementing agency as follows:

	2002-2003		2000-2001	
	Millions of dollars	*Percentage*	*Millions of dollars*	*Percentage*
UNFPA	185.8	48.9	130.9	41.9
Governments	125.3	33.0	117.4	37.6
Intergovernmental institutions and non-governmental organizations	55.1	14.5	45.5	14.5
United Nations agencies	13.7	3.6	18.4	6.0
Less: Expenditures charged to cost-sharing funds[a]	-		(13.0)	
Total programme activities	**380.0**	**100**	**299.2**	**100**

[a] Beginning in 2002, programme activities have been reported net of cost-sharing activities.

11. The following United Nations agencies executed projects funded by UNFPA in the biennium ended 31 December 2003:

- United Nations Department of Economic and Social Affairs
- Economic Commission for Africa
- Economic Commission for Europe
- Economic Commission for Latin America and the Caribbean
- Economic and Social Commission for Asia and the Pacific
- Economic and Social Commission for Western Asia
- Food and Agriculture Organization of the United Nations
- International Labour Organization
- United Nations Educational, Scientific and Cultural Organization
- United Nations Children's Fund
- United Nations Development Fund for Women
- United Nations Institute for Training and Research
- United Nations Office for Project Services
- World Health Organization.

12. Schedule 3 provides an analysis of programme activities by region.

13. Expenditures in respect of the Technical Advisory Programme totalled $31.4 million for the biennium (2000-2001: $35.1 million). The recruitment process for the Country Technical Services Teams, which commenced in 2002, will be completed in the 2004-2005 biennium.

14. The total cost of programme support services was $10.2 million for the biennium (2000-2001: $9.9 million). Programme support service costs incurred by UNFPA increased from $6.8 million in the 2000-2001 biennium to $7.2 million in the 2002-2003 biennium.

3. Biennial support budget

15. The revised gross and net biennial support budget appropriations for the biennium ending 31 December 2003 were $155.2 million (2000-2001: $149.4 million) and $135.1 million (2000-2001: $127.4 million), respectively.

16. Actual activity for the biennial support budget for the biennium is summarized as follows:

	2002-2003	*2000-2001*
	Millions of dollars	
Gross biennial support budget expenditure	150.5	134.8
Credits to the biennial support budget	(17.7)	(21.3)
Net biennial support budget expenditure	132.8	113.5
Total expenditure	**563.5**	**465.2**
Net biennial support budget as percentage of total expenditure	23.6	24.4

17. The increase in gross biennial support budget expenditures between the two bienniums is $15.7 million, or 13.8 per cent. This is attributable to low implementation in 2000-2001, in response to the decrease in income, and increased costs in 2002-2003, namely for payroll, security and typology implementation in country offices.

18. The decrease of $3.6 million in credits to the biennial support budget is attributable in large part to the non-reimbursement of income tax charges incurred by UNFPA staff members following the withdrawal of funding to UNFPA by the Government of the country in which these staff members reside. Note 11 to the financial statements provides a detailed analysis of the credits to the biennial support budget.

19. The unencumbered balance of net appropriations at 31 December 2003 was $2.3 million. Net biennial support budget appropriations were 98.3 per cent utilized in the current biennium (2000-2001: 89.1 per cent).

4. Implementation of the Enterprise Resource Planning System

20. The financial plan for the Enterprise Resource Planning System totalled $10.0 million in the biennium to 31 December 2003. Expenditures of $7.3 million were incurred in 2002-2003 (2000-2001: nil). Implementation was ongoing at 31 December 2003.

21. Once fully implemented, the Enterprise Resource Planning System will allow integration of financial, accounting and programme finances, provide budget formulation modules both for programme purposes and for the biennial support

budget in all locations, provide human resources functions at international and local levels for all types of staffing, support procurement activities and provide balanced scorecard and key performance management functions.

5. Termination payments

22. Planned expenditures in respect of termination payments to the incumbents of posts not included in the country office typology, developed under the auspices of the UNFPA transition process, totalled $2 million. Expenditures of $1.8 million were incurred in the biennium ended 31 December 2003 (2000-2001: nil).

6. Fund balances and reserves

23. The net shortfall of income over expenditure for the 2002-2003 biennium was $12.1 million (2000-2001: surplus of $67.4 million). As a result of this and other reserve movements the programmable fund balance under regular resources decreased from $39.9 million to $20 million.

24. Of this, $1.2 million, arising from procurement services in the biennium ended 31 December 2003, has been earmarked to facilitate resource planning in future bienniums.

25. At 31 December 2003, the operational reserve was increased to $57.7 million (2001: $51.7 million).

7. Other assets and liabilities

26. At 31 December 2003, total current assets, which exclude investments with a maturity of more than three years, were $110.5 million (2001: $173.8 million) compared with total current liabilities of $54.3 million (2001: $77.3 million), giving a current ratio, which measures the organization's ability to meet its current obligations, of 2.03 (2001: 2.2).

8. Cash and investments

27. At 31 December 2003, cash and investments held by UNFPA totalled $118.5 million (2001: $139.7 million) and $146.6 million (2001: $187.0 million) under regular and other resources, respectively.

28. Schedule 8 provides an analysis of investment by security type and by fund or reserve.

B. Other resources

1. Trust funds

29. Trust fund activity for the bienniums 2000-2001 and 2002-2003 can be summarized as follows:

	Co-financing	Other trust funds	Procurement services	2002-2003 Total	2000-2001 Total
			Millions of dollars		
Fund balance as 1 January	92.6	8.3	23.6	124.5	61.8
Contributions	118.9	-	21.6	140.5	242.3
Transfers and refunds	(8.7)	0.5	(2.9)	(11.1)	(4.2)
Other income (including interest)	3.1	0.4	1.0	4.4	10.8
Expenditure	(135.3)	(2.3)	(35.7)	(173.3)	(186.1)
Fund balance as at 31 December	**70.7**	**6.9**	**7.5**	**85.0**	**124.6**

30. Contributions to trust funds decreased from $242.3 million in the 2000-2001 biennium to $140.5 million in the 2002-2003 biennium. Income to co-financing trust funds was augmented in the 2000-2001 biennium by two significant contributions totalling $93.3 million for activities promoting reproductive health commodity security.

31. Schedule 6 provides an analysis by trust fund.

2. Cost-sharing

32. Cost-sharing contributions for the 2002-2003 biennium totalled $71.7 million (2000-2001: $24.3 million). As a proportion of total contribution income to other resources, cost-sharing contribution income increased from 9.1 per cent in the 2000-2001 biennium to 33.6 per cent in the 2002-2003 biennium.

33. The balance of cost-sharing funds held at 31 December 2003 was $23.6 million (2001: $12.9 million).

34. Schedule 7 provides an analysis of cost-sharing income and programme expenditure by region.

Chapter II
Report of the Board of Auditors

Summary

The Board of Auditors has reviewed the operations of the United Nations Population Fund (UNFPA) and has also audited its financial statements for the biennium ended 31 December 2003.

The Board's main findings are as follows:

(a) The Board was unable to obtain adequate assurance of the accuracy and completeness of the value of non-expendable equipment disclosed in note 25 to the financial statements at a total of $57.5 million;

(b) Long outstanding inter-fund and operating fund balance differences between UNFPA and other agencies were identified, while the balances of the latter agencies may also be inaccurate;

(c) UNFPA's reserves were inadequate to cover its end-of-service and post-retirement benefits liabilities of $83.2 million;

(d) Although the Board noted significant efforts made by UNFPA, further improvements need to be made regarding the internal control measures and procedures for nationally executed expenditure to ensure that adequate assurance is obtained regarding the effective utilization of funds;

(e) UNFPA implemented a new enterprise resource planning system in January 2004. However, the Board noted several control deficiencies, especially the lack of an independently validated internal control framework;

(f) The Board noted that UNFPA did not have adequate monitoring mechanisms to ensure that project travel expenditure was within the planned amount and also that there was excessive mission travel by senior officials;

(g) UNFPA did not have an internal audit charter detailing the purpose, authority and responsibilities of the internal audit function.

The Board made recommendations on: the maintenance of accurate non-expendable records; unreconciled inter-agency balances; the need to review funding mechanisms for end-of-service and post-retirement benefits; controls and procedures for nationally executed expenditure are improved; actions are initiated to ensure that an internal control framework is compiled, validated, approved and disseminated for the newly implemented enterprise resource planning system; and an internal audit charter is developed. By July 2004, the Administration planned to implement a number of appropriate remedies.

A summary of the Board's main recommendations are reflected in paragraph 12 of the present report.

A. Introduction

1. The Board of Auditors has audited the financial statements and reviewed the operations of the United Nations Population Fund (UNFPA) for the period from 1 January 2002 to 31 December 2003, in accordance with General Assembly resolution 74 (I) of 7 December 1946. The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto (see ST/SGB/2003/7), the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency and the International Standards on Auditing. Those standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the expenditures recorded in the financial statements for the biennium ended 31 December 2003 had been incurred for the purposes approved by the governing bodies, whether income and expenditure had been properly classified and recorded in accordance with the Financial Regulations and Rules and whether the financial statements of the United Nations Population Fund presented fairly its financial position as at 31 December 2003 and the results of the operations for the biennium. The audit included a general review of financial systems and internal controls and a test examination of accounting records and other supporting evidence to the extent that the Board considered necessary in order to form an opinion on the financial statements.

3. In addition to the audit of the accounts and financial transactions, the Board carried out reviews under financial regulation 7.5. The Board's audit included visits to UNFPA headquarters and six field offices (Bangladesh, Ethiopia, India, Kenya, Pakistan and the Sudan).

4. The Board modified its audit report (chap. III, audit opinion) to emphasize its concerns, summarized as follows:

(a) The Board was unable to obtain adequate assurance that the figure for non-expendable equipment, disclosed as a total of $57.5 million in note 25 to the financial statements, was accurate;

(b) Unreconciled inter-agency balances were sometimes long-outstanding, while the balances in the accounts of other agencies may also be inaccurate. The value of such balances may, therefore, be misstated in the financial statements;

(c) UNFPA implemented a new enterprise resource planning system, called "Atlas", in January 2004. The Board noted several control deficiencies with the system, especially the lack of an independently validated internal control framework. The introduction of the system, which took place after the balance sheet date, is regarded as posing a significant risk to UNFPA. While this has not had an impact on the 2002-2003 financial statements, unless corrected, control deficiencies may cause errors in the 2004-2005 financial statements.

5. The General Assembly, in paragraph 6 of its resolution 57/278 of 20 December 2002, requested the Secretary-General and the executive heads of the funds and programmes of the United Nations to examine governance structures, principles and

accountability throughout the United Nations system. The Board noted that UNFPA did not take any action in this regard.

6. The Board continued its practice of reporting to UNFPA the results of specific audits in management letters containing detailed observations and recommendations. This practice allowed for an ongoing dialogue with the Fund.

7. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations and conclusions were discussed with the Administration, whose views have been appropriately reflected in the present report.

8. A summary of the Board's main recommendations is contained in paragraph 12 below. The detailed findings and recommendations are reported in paragraphs 14 to 314.

1. Previous recommendations not fully implemented

Biennium ended 31 December 1999[1]

9. In accordance with section A, paragraph 7, of General Assembly resolution 51/225 of 3 April 1997, the Board has reviewed the action taken by UNFPA to implement the recommendations made in its report for the period ended 31 December 1999. There are no significant outstanding matters.

Biennium ended 31 December 2001[2]

10. In accordance with General Assembly resolution 48/216 B of 23 December 1993, the Board also reviewed the measures taken by UNFPA to implement the recommendations made in its report for the financial period ended 31 December 2001. Details of the actions taken and the comments of the Board are included in the report and have been summarized in the annex to the present chapter. Out of a total of 31 recommendations, 8 (26 per cent) were implemented, while 23 (74 per cent) were under implementation.

11. The Board has reiterated, in paragraphs 62, 87, 97, 102, 112, 117 and 299 of the present report, previous recommendations that had not yet been implemented. The Board invites the Administration to assign specific responsibility and establish an achievable time frame to implement them.

2. Recommendations

12. **The Board recommends that UNFPA:**

(a) Conclude its reconciliation of the non-expendable equipment as a matter of urgency to ensure that opening balances entered into the Atlas system are correct and implement controls to ensure that the respective units verify the equipment in their possession on a regular basis (para. 42);

[1] *Official Records of the General Assembly, Fifty-fifth Session, Supplement No. 5G* (A/55/5/Add.7).

[2] Ibid., *Fifty-seventh Session, Supplement No. 5J* and corrigendum (A/57/5/Add.7 and Corr.1).

(b) Take immediate action to ensure the accuracy, completeness and proper control of non-expendable equipment in compliance with its directives (para. 51);

(c) Investigate, in conjunction with other organizations in the United Nations system, unreconciled balances with a view to resolving them expeditiously and develop procedures to resolve future inter-agency balances in a timely manner (para. 57);

(d) Review, in conjunction with the Administration of the United Nations and of other funds and programmes, the funding mechanism and targets for providing for end-of-service and post-retirement benefit liabilities (para. 62);

(e) Quantify the financial effect of audit qualifications made in respect of nationally executed expenditure and continue to evaluate such qualifications against action plans for reasonableness (para. 117);

(f) In conjunction with the United Nations Development Programme (UNDP) and the United Nations Office for Project Services (UNOPS), perform an independent comprehensive post-implementation evaluation of the set-up and effectiveness of the built-in controls of the Atlas system as soon as possible (para. 152);

(g) Compile, approve and disseminate an overall internal control framework to all staff that covers all modules of Atlas as a matter of priority (para. 156);

(h) Introduce monitoring mechanisms to ensure that project travel falls within the budgeted amount allocated for travel expenditure (para. 235);

(i) Evaluate future travel plans with a view to achieving the desired outcomes using alternative means (para. 249);

(j) Develop an internal audit charter detailing the purpose, authority and responsibility of the Internal Audit function (para. 272).

13. The other recommendations of the Board appear in paragraphs 33, 66, 71, 74, 83, 91, 97, 107, 123, 128, 131, 136, 138, 143, 146, 162, 167, 171, 174, 178, 181, 184, 187, 189, 192, 198, 206, 212, 214, 216, 224, 238, 241, 246, 256, 260, 264, 279, 286, 295, 303, 306, 308 and 314.

B. Financial issues

1. Financial overview

14. As reflected in statement I, UNFPA incurred expenditures of $563.5 million of its regular resources income of $552.1 million in the biennium 2002-2003. UNFPA also incurred expenditures of $226.4 million of its other resources income of $218.6 million. As a result, UNFPA had a shortfall of combined income over combined expenditure in the amount of $19.2 million. Expenditures exceeded income for other resources in the current biennium owing to the use of excess funds carried forward from the prior biennium's net excess of $155.2 million. Project budgets were not overspent since these budgets span the life cycle of the projects, which could be longer than a biennium.

15. During the biennium, UNFPA started the implementation of a new enterprise resource planning system, called "Atlas", which cost $7.3 million. The approved budget for implementation of the system for the biennium 2002-2003 was $10 million. The system was implemented in conjunction with UNDP and UNOPS.

16. Total assets amounted to $285.5 million as at 31 December 2003, compared to $366.7 million as at 31 December 2001, representing a decrease of 22 per cent. Total liabilities also decreased by $38.9 million (29 per cent) to $94.1 million as at 31 December 2003 ($133 million as at 31 December 2001). The total asset to total liability ratio improved from 2.76:1 as at 31 December 2001 to 3.03:1 as at 31 December 2003. The total cash holdings ($265.1 million) to total liability ratio of 2.82:1 showed a significant improvement compared to the same ratio of 1.4:1 in the previous biennium.

2. United Nations system accounting standards

17. The Board assessed the extent to which the UNFPA financial statements for the biennium ended 31 December 2003 conformed to the United Nations system accounting standards. The review indicated that the financial statements were consistent with the standards.

3. Presentation and disclosure of financial statements

18. The General Assembly, in its resolution 55/220 of 23 December 2000, requested the Secretary-General and executive heads of funds and programmes of the United Nations, in conjunction with the Board of Auditors, to continue to evaluate what financial information should be presented in the financial statements and schedules and what should be presented in the annexes. The Board, in response to the resolution, and to similar requests from UNFPA management, reviewed the general presentation and disclosure in the financial statements for the biennium ended 31 December 2003.

19. The quality of financial reporting improved when compared to the financial statements for the biennium 2000-2001, which was the first time that UNFPA prepared its own financial statements. UNFPA informed the Board that part of the reason for the improvement was that its Finance Branch had been strengthened in terms of personnel, knowledge and understanding of UNFPA operations and systems.

20. The Board was also pleased to note that its recommendations, in its previous report,[3] with regard, inter alia, to investments and provision for doubtful collection of contributions receivable ($55,000 as at 31 December 2003) have been taken into consideration. Furthermore, schedule 3, which provides an analysis of programme activities by region, was introduced for the first time, as were more transparent investment accounting practices. In addition, for the first time, the multi-year funding framework has been referred to in note 10, providing the reader with better insight into the reporting structures of UNFPA. Note 11 on the biennial support budget now makes it easier for users of the financial statements to follow the disclosure of income to the biennial support budget. Note 20 provides additional information on transfers within UNFPA resources.

[3] Ibid., chap. II, paras. 21 and 23.

21. The Board is of the view that the financial report and the financial statements should contain sufficient combined information to enable users to gain a good understanding of the operations and performance of the organization for the financial period under review without having to put pieces of information together themselves.

22. Owing to the numerous reports required by the General Assembly and the Executive Board of UNFPA, the Board of Auditors is aware that, in some instances, the governance principles discussed below may be applied in documents issued to these governing bodies as part of UNFPA's normal reporting process. These documents include, inter alia, UNFPA's annual financial review, the statistical report, the annual report, the biennial budget document, the *State of World Population* publication and the multi-year funding framework.

Financial report

23. In terms of governance principles and best practices, the following governance issues are normally reported on in the financial report (chap. I), which precedes the financial statements:

(a) Governance and other regulatory bodies (as mentioned above);

(b) Performance reporting and non-financial information;

(c) Social accounting issues;

(d) Risk management, continuity and internal control.

Performance reporting and non-financial information

24. There was no mention in UNFPA's financial report of performance in terms of its organizational objectives and mandate. While programme expenditure per country per region is presented in financial terms in schedule 3, non-financial information is excluded. No mention was made of UNFPA's key objectives, alignment of the organization to the Millennium Development Goals or the goals of the 1994 International Conference on Population and Development. Such performance information and non-financial information disclosures are likely to be of value to the relevant stakeholders.

Social accounting issues

25. Social accounting issues could be useful and consideration should be given to the desirability of incorporating such information into UNFPA's financial reports. Social accounting issues include:

- Environmental reporting
- Employee and/or human resources reporting, for example an analysis of the composition of staff, an analysis of the skills of current staff compared to the skills needed and details on the future staff requirements (including the continuity plan/rotation policy)
- Health and safety issues
- Social reporting.

Risk management, continuity and internal controls

26. The constant identification of risks and continuous development of systems and controls to address those risks is critical to most organizations. Disclosures could deal with the measures put in place to address financial risks, to safeguard assets and financial records and to ensure continuity in the event of a disaster. No such disclosures were included in UNFPA's current or prior period financial reports.

27. Generally the financial report provides a summary of the financial statements of the biennium 2002-2003. The Board was pleased to note that for the first time the current ratio (current assets over current liabilities) was included. However, no other key indicators/ratios, such as cash holdings as a percentage of total liabilities, were included.

28. In addition, the financial report did not contain:

- The existence of a disaster management and recovery plan
- Internal measures to manage risks, internal code of ethics and conduct and enforcement thereof among employees
- The internal audit function
- Details of any oversight committee reviewing the work of internal audit
- Measures put in place to safeguard the integrity of management and financial information.

Financial statements

29. All of the information presented in schedule 1 (Regular resources: status of voluntary contributions pledged at 31 December 2003) was also presented in document DP/FPA/2003/13 (Annual Financial Review, 2002).

30. Schedule 4 discloses information on expenditure for regular resources by implementing partners to comply with UNFPA's regulations and rules, which require the organization to report on unspent allocations of regular resources. Similar information for other resources is not provided elsewhere, although this would be useful.

31. Schedule 8 (Investments as at 31 December 2003), presented the different types of securities held by UNFPA and the portion of the total attributable to each fund/reserve. Note 14 provides information on the market value of the different types of securities. However, no indication was provided in the financial statements or in the financial report as to how long UNFPA could maintain its operations with its current level of securities. In a related issue, no disclosure was provided on the liquidity of the investments (the fixed terms). While the closing book and market value of investments was disclosed, no reconciliation was provided for the movement of these balances such as opening balances, purchases, disposals and closing balances.

32. The provision and disclosure of any information would be subject, inter alia, to an examination of the benefit of providing the information over the cost thereof and also to scrutiny as to whether it meets the general qualitative characteristics of relevance, reliability, comparability and understandability as stated in the United Nations system accounting standards.

33. **UNFPA agreed with the Board's recommendation to:**

(a) Consider the disclosure of information in terms of best governance principles relating to oversight, performance reporting, social accounting issues, risk management, continuity and internal control issues. In this regard, UNFPA should revert to paragraph 6 of General Assembly resolution 57/278, in which the General Assembly requested the Secretary-General and the executive heads of the funds and programmes of the United Nations to examine governance structures, principles and accountability throughout the United Nations system, since better disclosure would be a step towards taking a proactive approach to the review requested by the Assembly;

(b) Consider further improvements to the presentation and disclosure of financial statements;

(c) Disseminate improvements made at other United Nations organizations through inter-agency mechanisms such as the High-Level Committee on Management.

4. Non-expendable equipment

34. The Board recommended, in paragraph 103 of its report for the biennium ended 31 December 2001, that organizational units at UNFPA headquarters should be tasked with the review and verification of all non-expendable equipment under the Fund's control. Furthermore, it was recommended that UNFPA should expedite the transfer of all remaining non-expendable equipment to the coding system.

Headquarters

35. Total headquarters non-expendable equipment disclosed in note 25 to the financial statements amounted to $2.7 million ($2.8 million in 2001).

36. Paragraph D.16 of the UNFPA Procurement Manual requires that a record of all non-expendable equipment be maintained, including location. While UNFPA maintained a list of non-expendable equipment, no additions for the biennium 2002-2003 were included. In addition, entries on the disposal of equipment, amounting to $1.349 million, were not removed from the list. While a reconciliation reflecting the addition and disposal of equipment were subsequently provided, together with the inventory list, the list excluded $57,805 in disposals.

37. Paragraph D.17 of the UNFPA Procurement Manual requires that a total physical inventory be conducted at least once every two years. The location of equipment was not updated on the inventory system and the Board could not physically verify 79 per cent of the sample selected from the inventory listing. The Board could not determine whether the reason for this was that the location of equipment in the listing was incorrect or that the equipment had been disposed of and not recorded.

38. New inventory purchases of $1.26 million were not bar-coded and entered into the inventory system and the exercise of bar-coding the existing non-expendable equipment was not completed. The Board could not verify 71 per cent of a sample of equipment at headquarters against the inventory listing and reconciliation.

39. Inventory records covering each headquarters organizational division and indicating all non-expendable equipment under its control were not maintained as

required by UNFPA's directives. Each unit could not, therefore, review and verify the list on a regular basis and notify the Procurement and Facilities Management Branch of the movement of equipment from its designated location.

40. The last physical inventory count was conducted in March 2002, for the biennium ended 31 December 2001. A complete count took place in May 2004 at the conclusion of the Board's audit. UNFPA informed the Board that all assets were bar-coded to facilitate improved monitoring and management. The next task would be to reconcile the previous inventory listing (taking into account additions and disposals) with the physical count, thereby attaching values to all counted assets. This was expected to be completed by mid-June 2004. UNFPA expected that the Atlas system would make the record-keeping of inventory records much simpler by updating the listing with items on a continuous basis.

41. While the Board noted the efforts of the Fund to update its inventory records, at the time of the audit the control over the recording, safekeeping and maintenance of non-expendable equipment had not been exercised in accordance with UNFPA procurement procedures.

42. **UNFPA agreed with the Board's recommendation to: (a) conclude its reconciliation of the non-expendable equipment as a matter of urgency in order to ensure that opening balances entered into the Atlas system are correct; and (b) implement controls to ensure that the respective units verify the equipment in their possession on a regular basis, which should then be reconciled with the completed inventory listing.**

43. UNFPA informed the Board that it was providing revised guidelines on procedures pertaining to non-expendable equipment within the new Atlas system and that responses in this regard had been received from all offices.

Country offices

44. Total expenditure on non-expendable equipment for country offices amounted to $8.4 million (2001: $8.5 million), as disclosed in note 25 to the financial statements. According to UNFPA records, only 86 (80 per cent) out of 108 country offices had submitted their annual inventory returns to headquarters as at May 2004. The amount of $8.4 million was produced from the records in the Integrated Management Information System. There was no assurance, however, that the information had been certified as correct.

45. During the audits performed in six country offices, the Board noted the following weaknesses:

(a) Three country offices had not adequately marked the equipment with a unique inventory number;

(b) Inventory counts were not done by individuals independent of those responsible for maintaining the inventory records in two of the country offices;

(c) The location of the non-expendable equipment was not updated with the movement of assets in three country offices;

(d) In two country offices, damaged or obsolete equipment was not appropriately recorded in the inventory system;

(e) In one country office, new acquisitions (a vehicle and six computers) were not included in the inventory list.

46. UNFPA's internal audit unit conducted 39 audits at country offices during 2002 and 21 during 2003. The following table gives an analysis of their findings in connection with non-expendable equipment.

Table 1
Analysis of internal audit findings at country offices

Weakness	*Number of country offices*	*Percentage of countries audited*
Annual inventory count not conducted	8	13
Annual inventory report not submitted to headquarters	5	8
Inventory count not adequately documented	11	18
Inventory count not reconciled with annual inventory report	14	23
Serial numbers of equipment not recorded on inventory listing	4	7
Inventory not marked with an identification number	6	10
Inventory records not updated with acquisitions and disposals	12	20
Location of inventory not indicated on inventory report	10	17
Discrepancies in inventory listing and inventory system not resolved	5	8
Unusable and irreparable equipment not disposed of	13	22
Inventory missing	8	13
Monthly reports for changes in inventory not forwarded to headquarters	5	8

47. Owing to the weaknesses and shortcomings mentioned above, the Board was unable to obtain adequate assurance that the value of non-expendable equipment of $8.4 million as disclosed in the financial statements was fairly stated.

Programme non-expendable equipment

48. Total programme non-expendable equipment disclosed in note 25 to the financial statements amounted to $46.4 million ($38.1 million as at 31 December 2001). However, 22 country offices (17.7 per cent) had not submitted the required form C (Annual non-expendable property report per project) to headquarters for inclusion in the amount disclosed in the financial statements. There was also a difference of $482,900 in form C submitted for an UNFPA project in Cape Verde (CVI/04/02/02) ($247,252) and the amount reflected in UNFPA's records ($730,152). Furthermore, not all of the form Cs from one country office had been included in UNFPA's records. Additional form Cs, totalling $1.4 million, were not included because country offices had submitted them late to headquarters. In addition, UNFPA had not reconciled the number of form Cs received with the number of active projects, estimated at over 1,100. Also, projects without any non-expendable equipment were not supported with form Cs indicating a nil balance.

49. Differences were identified between the data on the local financial management system and the amounts recorded for purposes of disclosure in the

financial statements. These differences resulted from the fact that non-expendable equipment was not always captured in the system in United States dollars. Once UNFPA headquarters detected this weakness, it performed a review on a random basis to ensure the accuracy of the amounts recorded in the system. Since this review was not done for all values recorded, the Board could not obtain sufficient assurance that similar reporting errors had been detected and rectified. While the costs for non-expendable equipment have already been charged to their respective projects, and the assets in question are usually given over to the partner Governments at the end of the project cycle, proper presentation of their original costs should be reflected in the notes to the financial statements.

Conclusion

50. In light of the above, the Board was unable to obtain adequate assurance as to the accuracy and completeness of the value of non-expendable equipment reflected as a total of $57.5 million in note 25 to the financial statements. **Accordingly, the Board has modified its audit report (chap. III, Audit opinion) to emphasize its concerns.**

51. **UNFPA agreed with the Board's recommendation that it take action immediately to ensure the accuracy, completeness and proper control of non-expendable equipment in compliance with its directives.**

5. Unreconciled differences

Inter-fund account balances

52. UNFPA relies on UNDP to make payments on its behalf at various country offices. UNFPA owed UNDP $7.06 million as at 31 December 2003 ($15.64 million in 2001). The amount shown in UNDP's financial statements as at 31 December 2003 is $7.60 million ($16.4 million in 2001). The difference between the amounts reported by the two organizations is $0.54 million ($0.76 million in 2001). This difference included unreconciled amounts, netting $0.33 million, some of which had been outstanding since 1999. The differences could be attributable to the numerous legacy systems that were used by UNFPA.

53. UNFPA hoped that, with the implementation of the new Atlas system in 2004, such differences would no longer arise since postings to the various inter-fund accounts would be performed automatically by the system. The Board is of the view that UNFPA and UNDP should clear the amounts owing as soon as possible so that the opening balances captured on the Atlas system for both organizations will be reconciled.

Operating fund balances

54. UNFPA uses 14 other United Nations agencies to implement projects. In most cases, funds are advanced to the implementing agencies and then, at least once a year, or more frequently if so agreed, the agencies report back to UNFPA. These reports should include information such as recorded allocations, disbursements, unliquidated obligations, commitments and cash holdings for each project. UNFPA must receive the reports from the implementing agencies before expenditures can be recorded in its own books at the end of the biennium. This procedure results in

funds receivable and payable to other agencies. The table below reflects a potential net understatement of payables of $785,858.

Table 2
Operating funds receivable or payable
(In United States dollars)

United Nations agency	*UNFPA balance*	*United Nations agency balance*	*Difference*
UNOPS	(2 141 686)	(3 739 400)	(1 597 714)
WHO[a]	(1 700 710)	(1 703 379)	(2 669)
ECA[a]	(325 440)	(331 190)	(5 750)
UNESCO[a]	(333 289)	(106 986)	226 303
DESA[a]	(1 946 529)	(1 235 892)	710 637
FAO[a]	153 122	36 457	(116 665)
Total payable	**(6 447 654)**	**(7 116 847)**	**(785 858)**

[a] World Health Organization (WHO); Economic Commission for Africa (ECA); United Nations Educational, Scientific and Cultural Organization (UNESCO); Department of Economic and Social Affairs (DESA); Food and Agriculture Organization of the United Nations (FAO).

55. UNFPA informed the Board that, with the assistance of UNDP, it had identified an amount of $868,110 that had been posted against UNDP's inter-fund account under UNFPA instead of the account for UNOPS. Taking this difference into account, the unexplained difference between UNFPA and UNOPS would amount to $729,604. However, the difference of $0.54 million mentioned in paragraph 52 above between UNFPA and UNDP's inter-fund account would increase by $868,110 with no resulting difference in accounts payable in UNFPA's financial statements.

56. The Board is concerned that the differences in balances between various United Nations agencies, some of which were long outstanding, could not be readily explained. The Board is also concerned that the balances in the other agencies' accounts may not be accurate since the Board has reported on similar findings for other organizations.

57. **The Board recommends that UNFPA, in conjunction with other organizations in the United Nations system: (a) investigate unreconciled balances with a view to resolving this expeditiously; and (b) develop procedures to resolve future inter-agency balances in a timely manner.**

58. UNFPA informed the Board that it had raised the issue of the need to clear the inter-agency balances in inter-agency meetings and had found that, while the agencies concurred, finding time to do this has been difficult. UNFPA was committed to reconciling and clearing old balances by the end of 2004.

6. Liabilities for annual leave, end-of-service benefits and post-retirement benefits

59. The Board recommended, in paragraph 33 of its previous report, that UNFPA, in conjunction with the United Nations and other funds and programmes, should review the funding mechanism and targets for end-of-service benefits. UNFPA's liabilities are reflected in table 3 below.

60. UNFPA's end-of-service liabilities of $68.2 million ($72 million in 2000-2001) exceeded its operational reserve balance of $57.7 million by $10.7 million as at 31 December 2003. This is further compounded when considering that an actuarial valuation estimated that the present value of the liability for after-service health insurance was $15 million higher than the accrued liability. UNFPA, in conjunction with UNOPS and UNDP, have taken the first step in approving the terms of reference for a consultant to develop a funding methodology and policy for liability for end-of-service benefits.

Table 3
Liabilities for end-of-service and post-retirement benefits[a]
(In millions of United States dollars)

Description	*2000-2001*	*2002-2003*
After-service health insurance net liability (accrued liability)	59.7	54.5
Accrued annual leave	6.0	6.4
Other termination benefits	6.3	7.3
Total	**72.0**	**68.2**

[a] Liabilities determined by actuarial valuation in December 2003.

61. The Executive Board authorized the setting aside of $2 million during the biennium 2002-2003 to provide for termination payments to the incumbents of posts not included in the new country office typology developed under the auspices of the UNFPA transition process. Actual expenditure for these termination payments amounted to $1.8 million for the biennium 2002-2003.

62. **The Board reiterates its recommendation that UNFPA, in conjunction with the Administration of the United Nations and of other funds and programmes, review the funding mechanism for its liability for end-of-service and post-retirement benefits.**

63. UNFPA informed the Board that it continued to work with the United Nations and its funds and programmes on this matter. The topic was expected to remain on the agenda of the Task Force on Accounting Standards.

7. Hedging activities

64. UNFPA's treasury function is outsourced to UNDP. In its financial statements, UNFPA disclosed a gain on foreign exchange movements of $10.4 million in the biennium 2002-2003 financial statements (loss of $5.5 million in 2000-2001). UNFPA monitored hedging activities on a continuous basis against the objective of limiting losses on currency movements on pledged donor funds.

65. On 13 May 2003, UNFPA instructed the UNDP Treasury to close a hedging arrangement of €15 million, incurring a premium (cost) of $0.774 million. In error, UNDP recorded the premium in its own accounts. The error was detected in the financial records in March 2004 and the entry was corrected in UNFPA's 2004 accounts. The above-mentioned discrepancy has resulted in an understatement of expenditure of $0.774 million in UNFPA's financial statements for the biennium ended 31 December 2003.

66. **The Board recommends that UNFPA continue to closely monitor hedging transactions and obtain adequate information from UNDP in a timely manner, in order to ensure proper accounting of transactions.**

67. UNFPA informed the Board that it had implemented a process of monitoring transactions made for UNFPA by UNDP in the areas of treasury, investments and cash management. As a result, communications on these issues have improved.

8. Trust fund expenditures

68. With regard to trust funds, regulation 5.2 of article V of the United Nations Population Fund Financial Regulations and Rules[4] states the following with

> "The purpose and limits of each Trust Fund shall be clearly defined at the time the fund is established and, unless otherwise specified by the Executive Board, Trust Funds shall be accepted only on a fully funded basis."

69. Expenditures of $1.06 million were incurred for a trust fund project. As the donor had not yet deposited the funds into UNFPA's bank account, the authorized expenditure was charged against an umbrella project. A journal transaction, passed on 19 December 2003 to record the expenditure under the correct project once the funds were received from the donor, amounted to a pre-financing arrangement.

70. The Board is, however, concerned that the non-compliance with regulation 5.2 could result in UNFPA spending funds that are not available or subsequently received, therefore placing a strain on its limited budget and adversely affecting the cash-flow of the organization.

71. **The Board recommends that UNFPA implement procedures to prevent the pre-financing of projects.**

72. UNFPA informed the Board that the commitment control module and the requirement for expenditures to pass budget checking in the Atlas system would effectively prevent pre-financing. Access to real-time information would also enable management to monitor that pre-financing does not take place without proper authorization.

9. Accounts receivable

73. Accounts receivable amounted to $6.4 million as at 31 December 2003 ($8.7 million in 2000-2001). This included amounts of $423,648 outstanding from 2001 for staff seconded to peacekeeping missions and $54,200 for long-outstanding education grants (for four staff, two of whom separated from UNFPA in 2003). While the Board notes that UNFPA has intensified its efforts to recover these long-outstanding accounts receivable, there were no formal procedures to monitor and

[4] UNFPA/FIN/REG/Rev.6-UNFPA/FIN/RULES/Rev.6.

review outstanding recoverable balances. In addition, the risk exists that any written-off accounts receivable were not appropriately authorized since there was no formal policy for the creation of long-outstanding balances or the writing-off of irrecoverable balances.

74. **UNFPA agreed with the Board's recommendation to implement a formal debt collection policy to facilitate the effective monitoring and recovery of outstanding receivables.**

75. UNFPA informed the Board that it intended to have the policy established, communicated and implemented before the end of the biennium 2004-2005.

10. Write-off of losses of cash, receivables and property

76. UNFPA informed the Board that it had written off losses of cash, receivables and property to a total of $0.7 million ($0.6 million in 2000-2001).

11. Ex gratia payments

77. UNFPA reported no ex gratia payments during the biennium 2002-2003.

C. Management issues

1. Programme expenditure

78. Programme expenditure amounted to $646.9 million in biennium 2002-2003. The Board reported extensively on UNFPA's control over programme expenditure in its previous report[5] and followed up on its recommendations, as reflected below. The United Nations Development Group had assigned a task force to research better ways to manage programme expenditures. The Board's recommendations, set out below, should be implemented, taking into consideration the proposals that will be submitted by the task force.

Ageing and clearing of advances

79. Uncleared operating funds advanced totalled $14 million ($30.2 million in 2000-2001) as at 31 December 2003, as indicated in table 4 below. Advances to government implementing partners of $8.1 million ($18.8 million in 2000-2001) and non-governmental organizations of $5.4 million ($9.9 million in 2000-2001) represented 97 per cent in aggregate (95 per cent in 2000-2001) of the uncleared balance of advances at year-end.

80. In paragraph 59 of its previous report the Board recommended that UNFPA generate an age analysis to review outstanding advances made in respect of nationally executed expenditure, with a view to ensuring accountability of implementing partners, taking into account future work plans.

81. The Board was pleased to note that the total uncleared operating funds advanced to governments and to non-governmental organizations decreased by $16.2 million (54 per cent) from the biennium 2000-2001. In its preparation of data for submission to the new Atlas system, UNFPA cleared long-outstanding advances.

[5] *Official Records of the General Assembly, Fifty-seventh Session, Supplement No. 5G* and corrigendum (A/57/5/Add.7 and Corr.1), chap. II, paras. 46-94.

Table 4
Uncleared operating funds advanced in respect of nationally executed expenditure
(In millions of United States dollars)

	Biennium 2002-2003				*Biennium 2000-2001*			
Executing agency	*Regular resources*	*Other resources*	*Total*	*Percentage*	*Regular resources*	*Other resources*	*Total*	*Percentage*
Government	6.652	1.446	8.098	57.90	16.166	2.649	18.815	62.24
Non-governmental organizations	3.345	2.102	5.447	38.95	7.476	2.429	9.905	32.76
United Nations agencies	439	-	439	3.14	1.512	-	1.512	5
Total	**10.436**	**3.548**	**13.984**	**100**	**25.154**	**5.078**	**30.232**	**100**

82. UNFPA had expected that the Atlas system would be able to provide an age analysis that could be used for control purposes. However, by April 2004, the recommended age analysis had not been implemented. An age analysis is an important tool to ensure the timely clearing of operating funds advanced, accurate and complete recording of nationally executed expenditures and accountability of implementing partners.

83. **UNFPA agrees with the Board's recommendation to intensify its efforts to implement the age analysis using the Atlas system in order to better monitor funds advanced to implementing partners.**

84. UNFPA informed the Board that while the new system could provide this data, most financial reporting had not been implemented, but would be available by December 2004.

Appointment of auditors of nationally executed expenditure

85. In paragraph 60 of its previous report, the Board stated that although the UNFPA Policies and Procedures Financial Manual indicates who could be appointed as auditors of nationally executed expenditure, UNFPA's monitoring database did not indicate whether the auditors were appointed by the implementing partner or the UNFPA country office.

86. UNFPA's Division of Oversight Services intended to include details of the auditors of nationally executed expenditure on its database for 2003. However, by April 2004, when the audit plans were compiled, not all information was recorded owing to the late submission of reports from country offices.

87. **The Board reiterates its recommendation and UNFPA has agreed to: (a) include in its monitoring tools details of the appointment of auditors of nationally executed expenditures; and (b) use such details to verify compliance with the criteria set forth in its Policies and Procedures Financial Manual.**

88. UNFPA informed the Board that its Audit Services Branch was in the process of following up with country offices and divisions to obtain information in order to

complete the database. The Audit Services Branch would ensure that the required information is provided with the 2004 plans.

Criteria for the appointment of project auditors

89. In paragraph 63 of its previous report, the Board recommended, and UNFPA agreed, that its directives on nationally executed expenditure should include specific procedures and pre-determined criteria to ensure that auditors of the required independence, integrity and technical competence are appointed and that compliance with those directives are monitored by the country office.

90. The Board noted that internal control procedures to address the inconsistencies in the quality of audit reports had still not been implemented. UNFPA was in the process of formulating internal control procedures and guidance for the country offices to assist both the country offices and implementing partners in the appointment of project auditors, in accordance with UNFPA directives on nationally executed project expenditure. As part of the process to harmonize operational procedures between United Nations agencies, an audit task group had been created to develop guidelines on project audits by June 2004.

91. **UNFPA agreed with the Board's recommendation to: (a) expedite finalization of its draft guidance on appointment of project auditors; (b) communicate these guidelines to the country office; and (c) monitor compliance with the directives.**

92. UNFPA informed the Board that a technical note on the appointment of project auditors, to be prepared by the United Nations Development Group inter-agency audit task group, should be completed by September 2004. This would then be communicated by the Audit Services Branch to the country offices and divisions in time for the 2004 project audit process.

Terms of reference and audit scope for auditors of nationally executed expenditures

93. The UNFPA Policies and Procedures Manual prescribes matters to be included in the terms of reference for auditors of nationally executed expenditure. Such matters include the audit objectives, scope of the audit, audit methodology, time table, audit certification and audit report.

94. In paragraph 65 of its previous report, the Board noted that there was not always evidence of any terms of reference for the project auditors, which resulted in inconsistencies in the audit scope and audit objectives and, consequently, in audit reports of different quality and the audit of different objectives. This did not facilitate the performance of a risk assessment for each project and monitoring of the evaluation.

95. The Division for Oversight Services now has a focal point for nationally executed expenditures and non-governmental organization audits. In the meantime, during country office management audits, UNFPA has continued to monitor adherence to the standard terms of reference. UNFPA was also reviewing the terms of reference for audits in conjunction with its review of the audit plans submitted by country offices and headquarters divisions. UNFPA headquarters provided feedback to country offices on the scope covered in project audit reports and their compliance with requirements. The inter-agency audit task group, formed as part of the

harmonization process, also planned to develop technical notes on the terms of reference for conducting audits and reporting results.

96. It was further noted that the only checklist utilized by UNFPA was in respect of the results of the evaluation of audit reports of nationally executed expenditure, which were communicated to the country offices. A checklist to assist country offices in adhering to the requirements of the Financial Manual had not yet been developed. UNFPA's Division of Oversight Services planned to develop a checklist of the standard requirements to assist country offices in monitoring compliance by the end of September 2004. A review of the Manual was ongoing.

97. **The Board reiterates its previous recommendation that UNFPA: (a) ensure that standard terms of reference are agreed by the country office and government implementing partners and the auditor of nationally executed expenditure; (b) ensure that the scope and format of the audit is consistent; and (c) compile a mandatory checklist of the standard requirements to assist country offices in adhering to the requirements of the UNFPA Policies and Procedures Financial Manual.**

98. UNFPA informed the Board that terms of reference for conducting audits would be developed by the inter-agency audit task group by September 2004. It would continue to review the terms of reference in conjunction with its review of the annual audit plans.

Plans for audit coverage of nationally executed expenditure

99. In paragraph 72 of its previous report, the Board recommended that UNFPA devote special attention to those country offices that had not submitted their audit plans in time by requesting that they commence the planning exercise well in advance of the prescribed deadline and that UNFPA intensify its follow-up action for country offices that have not adhered to requirements. UNFPA informed the Board that, as at 10 June 2004, 99 per cent of country offices submitted their 2003 audit plans.

100. There was a 6 per cent increase in the submission of audit plans from the biennium 2000-2001 to the biennium under review. UNFPA received 99 audit plans for 2002 (78 per cent) and 128 for 2003 (99 per cent). Although UNFPA headquarters had corresponded repeatedly with country offices, 91 of the 128 plans for 2003 (71 per cent) and 70 of the 99 plans for 2002 (71 per cent) were not submitted by the due dates.

101. The total planned audit coverage of nationally executed expenditures totalled $95.4 million ($75.7 million in 2002 and $75.6 million in 2001), which represented 94 per cent (78 per cent in 2002 and 71 per cent in 2001) of the total nationally executed expenditures for the year ended 31 December 2003.

102. **The Board reiterates its previous recommendation and UNFPA agreed to continue to devote special attention to those country offices that had not submitted their audit plans in time by requesting them to commence with the planning exercise well in advance of the prescribed deadline.**

Project audit reports

103. In paragraph 78 of its previous report, the Board recommended, and UNFPA agreed, to intensify its efforts to improve audit coverage in countries in which coverage was low and to implement controls to obtain assurances that funds for such countries were utilized for the purposes intended by the project auditors.

104. Nationally executed expenditures of $203.9 million were incurred for the biennium ended 31 December 2003 ($184 million in 2001), of which $161.6 million or 79 per cent ($109 million or 59 per cent in 2001) was audited by project auditors.

105. As at 20 May 2004, the percentage of nationally executed expenditures audited was 89 per cent for 2002 and 69 per cent for 2003. Also at the same date, the number of reports received was 852 for 2002 and 646 for 2003. While the percentage of nationally executed expenditure audited as at 4 June 2004 remained unchanged for 2002, it had increased to 74 per cent for 2003.

106. Only 16 per cent of the total number of audit reports were received in accordance with the UNFPA deadline of 31 March. Furthermore, the coverage in some country offices remained low.

107. **The Board recommends that UNFPA continue to follow up on country offices that fail to comply with the organization's directives on the audit of projects.**

108. UNFPA informed the Board that the Audit Services Branch had sent out reminders and had enlisted the assistance of the geographic divisions to obtain outstanding project audit reports. The performance of a country office is reflected in the annual performance evaluation of the UNFPA representative.

Country office action plans

109. In paragraph 75 of its previous report, the Board recommended that UNFPA should include in a consolidated database all country office action plans relating to the audit reports on nationally executed expenditure and that non-compliance by the country office should be noted and taken into account in the overall assessment of that office.

110. By April 2004, UNFPA did not include such action plans in its database owing to staff constraints and the fact that reports were received late. However, non-compliance of submission of action plans was taken into account in the overall assessment of country offices.

111. UNFPA utilized the comprehensive audit and recommendation database system, a web-based management system, to track the status of implementation of internal audit recommendations following the audits of country offices. After internal audit reports were issued, the offices were requested to enter and update the proposed follow-up action into the system. The functionality of this monitoring tool has not been extended to monitor the status of implementation of audit recommendations for nationally executed projects. UNFPA, therefore, had no automated system to monitor the recommendations of the auditors for the projects, aside from locally appointed auditors at the country offices.

112. **The Board reiterates its previous recommendation that UNFPA include in a consolidated database all country office action plans relating to the audit**

reports on nationally executed expenditure. UNFPA should also evaluate the possibility of using the comprehensive audit and recommendation database system to monitor the status of implementation of audit recommendations in respect of nationally executed projects.

Audit coverage of nationally executed expenditure

113. In paragraph 80 of its previous report, the Board recommended, and UNFPA agreed, to quantify the financial effect of audit qualifications made in respect of nationally executed expenditures and to evaluate such qualifications against action plans for reasonableness.

114. Of the 1,498 audit reports received in respect of nationally executed expenditures (certain projects have more than one implementing partner or subcontractor), approximately 1,087 (73 per cent), representing a value of $96.7 million, were unqualified by the auditors of the project.

115. Internal control weaknesses were reported in a total of 962 ($107.7 million) project audit reports. There were also instances where the prescribed financial forms submitted were incomplete or had not been submitted at all.

116. UNFPA was able to document the reasons for the qualifications, however, it was not always able to quantify the effect of the qualification in terms of the Board's previous recommendation. In order to address the issue, UNFPA received an action plan for all qualified project audit reports from the applicable country offices. UNFPA was of the view that the introduction of an operations manager in 44 country offices would assist in the development and continuous monitoring of the action plans to address the qualified project audit reports.

117. **The Board reiterates its recommendation that UNFPA quantify the financial effect of audit qualifications made in respect of nationally executed expenditure and continue to evaluate such qualifications against action plans for reasonableness.**

118. UNFPA informed the Board that it agreed that action plans to address audit qualifications should focus on material issues. The addition of operations managers in 44 country offices was expected to strengthen the capacity of the offices to carry out such analysis.

Monitoring and evaluation of nationally executed projects

119. In paragraph 89 of its previous report, the Board recommended, and UNFPA agreed, to adhere as far as practical and feasible, to the mandatory project evaluation and monitoring procedures prescribed in its directives. The Board further recommended that UNFPA headquarters should focus its attention on those projects that have not been subjected to audits of nationally executed expenditure as a means of obtaining adequate assurance and should also record in the consolidated database details of compensating controls implemented in those country offices at which assurance is low.

120. Details regarding key-compensating controls at projects of nationally executed expenditures that had not been subjected to audit had still not been recorded on the audit report database for the biennium ended 31 December 2003. The Audit Services Branch at UNFPA headquarters was of the opinion that, if it was

considered necessary, the geographical divisions were accountable for ensuring that compensating controls were in place and should maintain databases in this regard. Furthermore, UNFPA was of the opinion that because the percentage of nationally executed expenditures audited exceeded 80 per cent in the last two years, the need to look at compensating controls for projects that were not audited may not be critical.

Risk-based database

121. In paragraph 90 of its previous report, the Board noted that UNFPA headquarters did not maintain a database that included a history or trend analysis of the audit process in respect of nationally executed expenditure and results in the various country offices as a means of assessing project risk.

122. Owing to capacity constraints in the Audit Services Branch, UNFPA was not in a position to continue with the implementation of that recommendation. The Audit Services Branch was in the process of formulating the basis on which projects should be selected for audit in the forthcoming country office audit plans in a manner that would facilitate the migration to a fully-fledged risk-based model.

123. **UNFPA agreed with the Board's recommendation to continue its efforts in developing a risk-based database.**

124. UNFPA informed the Board that one staff member in the Audit Services Branch had been assigned the responsibility of developing a risk database.

Cost of audits of nationally executed expenditure

125. In paragraph 93 of its previous report, the Board recommended that UNFPA maintain data relating to the audit cost for each project on the consolidated database and analyse these costs. UNFPA agreed to this recommendation.

126. Country offices were requested to submit information on audit costs as part of the audit plan submissions. UNFPA did record actual audit costs on the audit planning database, where such information was available. Planned audit costs were recorded for all projects.

127. For the biennium 2002-2003, total planned audit costs recorded on the database amounted to $2.1 million for audited nationally executed expenditure amounting to $161.6 million. Planned audit costs therefore represents 1.3 per cent of the project expenditure audited, although actual costs may have differed from the planned costs.

128. **UNFPA agreed with the Board's recommendation to continue its efforts to obtain and record particulars of actual audit costs for all audits of nationally executed projects.**

Conclusion

129. The Board has noted the significant efforts made by UNFPA, which have resulted in further improvement in audit coverage of nationally executed project expenditure as well as improvement in the standard and usefulness of the audit report and planning database. **Internal control measures and procedures in respect of nationally executed expenditure could, however, be further improved**

to ensure that adequate assurance is obtained regarding the effective utilization of funds in respect of nationally executed expenditure.

2. Information and communications technology

130. The Board noted that UNFPA did not have a comprehensive information and communication technology (ICT) strategy for the biennium 2002-2003 although it had recently compiled a comprehensive ICT strategy for a five-year period. As of May 2004, the strategy was still in draft format. The Board commends UNFPA on this initiative and notes that there was potential for further improvement of the draft document in the area of information security; web strategies (intra/extranet); risk analysis; disaster recovery and business continuity; infrastructure standards; and discussion on potential constraints for implementing the strategy.

131. **The Board encourages UNFPA to further improve its ICT strategy and have this approved at the earliest possible opportunity.**

Enterprise resource planning system

Introduction

132. As noted above, UNDP, in partnership with the United Nations Office for Project Services and UNFPA, has implemented the new Atlas system. Atlas is intended to introduce new technology, streamline processes and bring about a changed environment for managing information in the three organizations, replacing the "home-grown" legacy systems and creating an integrated environment that is expected to enhance UNFPA's ability to manage financial, project, human resources and information. Wave 1 of the implementation has now been completed with the initial migration to Atlas in January 2004. UNFPA had an approved budget of $10 million for the implementation of the system ($2.25 million for 2002 and $7.75 million for 2003), of which, according to note 12 of the financial statements for the biennium 2002-2003, $7.3 million was spent. The reason for the under-spending was not clear.

133. The Board considered the implementation of the Atlas system to be a significant event. UNDP was the principal implementing partner. UNDP had followed a "fast-track" methodology to implement the system, planning and executing the various phases concurrently. The Board noted that the fast-track approach rendered the project vulnerable to a high risk of error, omission and possible failure. The risk was increased owing to the high number of legacy systems and country offices that would be consolidated and integrated within this project.

134. Wave 1, the first phase of the project, began on 2 January 2004 for 123 country offices and headquarters units at UNFPA. The present report focuses on implementation of the Atlas system by UNFPA. The Board's report on UNDP[6] will provide more details on the acquisition and development process for the system.

[6] *Official Records of the General Assembly, Fifty-ninth Session, Supplement No. 5A* (A/59/5/Add.1).

Project implementation

Data clean-up and conversion

135. Data clean-up initiatives typically result in data that cannot be validated or explained and results in data having to be discarded and balances written off. UNFPA experienced difficulties with data from the previous systems, which resulted in delays in moving data to the Atlas system. After the Board's interim audit, in October 2003, a note was issued directing the internal audit to review all data clean-up journals for validity and accuracy. This did not take place, however, owing to lack of capacity within the Division for Oversight Services.

136. **UNFPA agreed with the Board's recommendation that UNFPA's internal audit should verify the validity and accuracy of journals posted as a result of the data cleaning exercise.**

Training

137. At the time of the Board's pre-implementation review of the Atlas system (October 2003), staff members could not be trained on the full system. Most users reported that there were many changes to the system since the initial training was provided in October/November 2003, negatively impacting on their ability to understand the system.

138. **UNFPA agreed with the Board's recommendation to identify all changes in the Atlas system since the previous training and provide updated training to users.**

139. UNFPA informed the Board that its strategy was to communicate changes to staff via the Intranet since it felt that the changes to date had not been so complex as to warrant a new set of refresher training for all staff. Any future training provided would cover all changes made since the previous training.

140. UNFPA adopted a three-level call centre approach to assist users when the Atlas system is fully implemented, as follows:

- Level 1 — High-level technical support
- Level 2 — User functionality
- Level 3 — Business process support.

141. UNDP, through its service centres in New York, Kuala Lumpur, Bratislava and Panama, mostly handles level 1 queries. Level 2 and 3 queries are handled by the outsourced service centre in India and by UNFPA headquarters in New York.

142. A total of 8 out of the 24 service centre staff were newly appointed to the United Nations system. As at April 2004, the global service centre handled approximately 400 to 500 cases per week (UNFPA and UNOPS queries were also included in these figures). A total of 8,640 cases have been logged since the implementation date, of which 7,953 have been solved and 687 cases remained open. The Board noted that there was no service level agreement with the service centres.

143. **UNFPA agreed with the Board's recommendation, in consultation with UNDP and UNOPS, to establish service level agreements with the service**

centres, identifying minimum standard requirements regarding the number of cases handled and establishing the time used to resolve problem cases.

144. UNFPA informed the Board that it would examine the help centre arrangements with UNDP for level 1. Minimum standards have already been set for level 2, which is controlled by UNFPA, while standards for level 3 will be addressed in the context of the change control process.

145. During its interim audit, the Board noted that contingency plans at UNDP were common to UNFPA as well. UNDP's disaster recovery plan is contained in exhibit 7 of the UNDP vendor hosting agreement. UNDP indicated that this contingency plan covered a critical events level (for example, first payroll run) as well as at a disaster level. In addition, it was planning to have an alternate connectivity access via dial-up at country offices where business units may access the system from time to time. There was, however, no contingency plan for critical system failures after the implementation date. UNFPA informed the Board that its plan ensures less than 4 hours of data loss.

146. **The Board recommends that UNFPA, in conjunction with UNDP, expand its contingency measures to ensure the ability to continue to provide information system processing capabilities.**

Internal controls

147. The internal control framework monitors the extent to which the system adheres to the required control checks and balances, ensures data integrity and reliability and also safeguards the financial interests of UNFPA. The implementing partners adopted an approach to leverage the best practice functionality of the Atlas system, and, where possible, to adapt UNFPA business processes to Atlas functionality. Such an approach results in changes to the business process as well as to the internal control environment.

148. For the above reasons, the Board performed a high-level review of the internal controls operating within the Atlas system as at April 2004. This high-level review included interviews with staff from the Comptroller's Office, various "super-users", the Office of Audit and Performance Review, the work improvement tools team and designated staff at UNFPA.

149. UNFPA customized the following configurations of the Atlas system, which have helped to improve its general controls in the system by:

(a) Requiring "workflow" at the requisition level and not just at the purchase order and voucher approval level;

(b) Only having one vendor master file for the entire organization;

(c) Not permitting the use of the budget override function.

Pre- and post-implementation internal control framework review

150. At the time of the Board's interim audit, internal control frameworks were not under development. A consulting firm was appointed to perform the internal control framework review for the implementation of the Atlas system during October 2003 (pre-implementation review) and March 2004 (post-implementation review). The agreement for the reviews specified that they would be performed within a total of

100 hours (40 hours for the initial review, 40 hours for a post-live review, 20 hours as a reserve) at an estimated total cost of $15,000.

151. The Board was concerned about the perceived independence and objectivity of the consulting firm for the post-implementation review since it was the same firm hired for the implementation of the Atlas system at UNFPA. The Board noted, however, that the consultant who conducted the review was from the Audit Division of the firm and not directly involved in the Atlas implementation activities. The Office of Audit and Performance Review and the Office of Information Systems and Technology indicated that discussions were being held with the other United Nations implementing partners on performing a comprehensive independent third party post-implementation review of the system that would also include the internal control framework. The Board considers the proper set-up and functioning of the built-in internal controls within the system to be critical, especially during the initial implementation phase.

152. **UNFPA agreed with the Board's recommendation, in conjunction with UNDP and UNOPS, to initiate an independent comprehensive post-implementation evaluation of the set-up and effectiveness of the built-in internal controls for the Atlas system as soon as possible.**

153. UNFPA informed the Board that a working group had been formed to review and address the recommendations made in the first internal control review report.

Status of the internal control framework

154. By April 2004, the internal control framework for the procurement, accounts payable and human resources modules of the Atlas system had not been updated, although discussion papers were available. Internal control frameworks for other modules such as projects, treasury, grants and the general ledger had not yet been developed.

155. The Board considers that the absence of an approved overall internal control framework covering all modules of the Atlas system could pose a significant risk to UNFPA. An internal control framework is essential in order to ensure that adequate and appropriate controls are put in place to lower overall risk to the organization. UNFPA and the other implementing partners did have a draft internal control document that was under discussion as of May 2004.

156. **UNFPA agreed with the Board's recommendation to compile, approve and disseminate an overall internal control framework to all staff that covers all modules of the Atlas system as a matter of priority.**

Segregation of duties

157. In its country offices, UNFPA allocated two persons the role of "senior manager" for the Atlas system. The "senior manager" of the Atlas system is responsible for creating and approving vendors, purchase orders and payment vouchers. This same person is also allowed both to initiate transactions and approve payments for transactions. The Board is of the view that this structure does not provide for an adequate segregation of duties, which could lead to errors and fraudulent transactions, with the risk of potential losses for UNFPA.

General ledger module

158. As of May 2004, the general ledger for expenditures was not operational. As a result, aggregated information was not available and management was, therefore, unable to ascertain the results of the overall operations of UNFPA.

159. The Board was informed that this was due to an error in the formula for exchange rate conversions between the dollar ledger accounts and the euro ledger accounts, which was being incorrectly calculated. This led to a decision by UNDP, effective 5 January 2004, not to post any further transactions to the general ledger module. UNDP further indicated that it was still searching for a solution to the problem.

160. Since the general ledger was not operational as of May 2004, no global payroll expenditure transactions were, therefore, posted to the general ledger module. UNDP has indicated that it did not activate the general ledger module for payroll because the interface between the human resources module and the general ledger module was not configured. UNDP further indicated that it was aware that the interface had to be developed when the decision to implement the Atlas system was taken in December 2003.

Payroll interface with the Integrated Management Information System

161. All country office international staff and headquarters staff are paid through the Integrated Management Information System (IMIS). By mid-May 2004, an interface between IMIS and the general ledger module of the Atlas system still had to be developed, although the release plan indicated that the IMIS payroll interface had been finalized but had to be tested by the users and that the target date for its implementation was 1 May 2004.

162. **UNFPA agreed with the Board's recommendation, in conjunction with UNDP, to intensify its efforts to resolve the limitations on the general ledger module as a matter of priority.**

163. UNFPA informed the Board that work on the development of the general ledger module was ongoing and that it expected that, together with the global payroll interface and IMIS interface, it would be operational in July 2004.

Bank reconciliation

164. UNDP prepares bank reconciliations for UNFPA bank accounts as part of the treasury functions it performs on behalf of UNFPA. By May 2004, UNDP had not performed any bank reconciliations for the period from January to April 2004. UNDP indicated that the reasons for not performing reconciliations between the bank statements and the general ledger at headquarters level were as follows:

(a) No postings were being made to the general ledger module due to the problem as mentioned above;

(b) The bank reconciliation feature in the Atlas system was not operational;

(c) Owing to the limitation of the Atlas system, in that it only provides for one consolidated bank account in the general ledger, as opposed to separate bank accounts, it is extremely difficult to match the reconciling items to the various bank statements.

165. UNDP was investigating changes to the Atlas system to allow separate bank reconciliations for each bank account. If these changes were not possible, another software package may have to be acquired to interface with the Atlas system to enable UNDP to create separate bank reconciliations for each bank account.

166. With accounts payable and accounts receivable transactions at 135 country offices and headquarters, there was limited bank monitoring between bank accounts. Since the implementation of the Atlas system, there were 160,426 payments in the accounts payable modules that were not reconciled to the bank accounts. In addition, there were 6,493 receipts in accounts receivable modules that were not reconciled with the bank accounts. UNDP indicated that the reason for not carrying out reconciliations at the country office level was that sufficient training had not been provided.

167. **UNFPA agreed with the Board's recommendation to: (a) include appropriate terms and conditions addressing bank reconciliations in the service level agreement with UNDP for treasury services; and (b) closely monitor cash transactions processed by UNDP, on its behalf, until the reconciliations are in place.**

168. UNFPA informed the Board that it would ensure that suitable criteria for mandatory control features such as bank reconciliations and other key treasury functions are included in the service level agreement with UNDP.

Accounts payable module

169. The Board noted that it was possible for any individual at UNFPA who had been assigned the right to create/approve vendors to change the approved payment voucher details on the Atlas system before the actual payment was made. The system allowed the editing of details on the "Remit to vendor" payment invoice page subsequent to the voucher being approved for payment. This included changes such as the name of the vendor and the bank account details of the vendor. The system did not have controls to prevent changes to payee details. **The Board considered this to be a serious weakness, which could result in fraud and potential losses to UNFPA.**

170. The Board noted that there were no compensating preventative manual controls in place to address this defect. In addition, no exception report was available as a detective device to pick up any changes being made to the approved payment vouchers.

171. **UNFPA agreed with the Board's recommendation, in conjunction with UNDP, to take immediate steps to rectify the weakness in the Atlas system that allows changes to payee details after the payment voucher has been approved.**

172. UNFPA informed the Board that weekly meetings were being held with UNDP to resolve this and other issues in the accounts payable module.

173. The Board noted that in the case of payments split between two budget holders it was only necessary for one of the budget holders to approve the payment. Budget holders could also edit the allocation of the payment amounts without the approval of the other budget holder. This creates a risk of misallocation of expenditures as well as the potential for unauthorized expenditures.

174. **The Board recommends that UNFPA, in conjunction with UNDP, ensure that payments split between two or more budget holders are approved by both budget controllers before payment takes place.**

175. UNFPA informed the Board that it had recognized the weakness. While the weakness would be monitored with exception reports, it would be better for the system to allow for split approvals, which UNFPA expected to be available in the next release of the system scheduled for 2005.

Reports from the Atlas system

176. The number of monitoring/exception reports available from the Atlas system was limited. UNFPA had established a timetable for the prioritization of the development of such reports. The Board noted, however, that five reports, which were planned to be developed and in operation, were not available as of May 2004.

177. The Board considers the availability of timely reports from the Atlas system to be crucial for effective monitoring at UNFPA. Exception/monitoring reports that could be used for internal audit purposes were not considered during the initial stages of development. It was only at a later stage that these types of reports were considered.

178. **The Board recommends that UNFPA, in conjunction with UNDP, expedite its efforts to develop and put into operation all exception/monitoring reports.**

179. UNFPA informed the Board that it was analysing exception reports as part of its overall control framework.

Audit trail

180. The Board noted that the audit trail functionality had not been activated on the Atlas system. This functionality would allow UNFPA to track all transactions processed on the system and isolate responsibility for specific transactions where fraud or errors are detected. This tool is especially relevant considering the shortcomings noted with respect to the segregation of duties.

181. **The Board recommends that UNFPA, in conjunction with UNDP, reconsider activation of the audit trail function, taking into account the benefits and effect it will have on the operations of the Atlas system.**

182. UNFPA informed the Board that it had been advised that application of the audit trail function would have a severe impact on the processing time of the Atlas system. Every data table kept a record of the person who raised the transaction, which UNFPA considered to be sufficient control for the time being. If control and segregation issues become a problem in the future, it would consider activation of the audit trail.

Firewall

183. The recommended standards for the desktop and network environments and for connectivity indicated that all country offices should have an appropriate firewall as a minimum requirement. The Board noted that prescribed firewall security had been implemented at only a few country offices. The Office of Information Systems and Technology indicated that two vendors have been appointed to install firewall security at other country offices.

184. UNFPA agreed with the Board's recommendation that, in conjunction with UNDP, and after assessing financial requirements, it implement firewall security at all country offices according to the recommended minimum standards for desktop and network environments.

Required changes as per the release plan

185. UNDP, UNFPA and UNOPS prepared a release plan reflecting planned changes to the Atlas system as at 23 April 2004. There were 166 planned changes to the system, of which 18 were marked as critical priority and 96 as high priority, together representing more than 69 per cent of the planned changes.

186. The release plan addressed, inter alia, the following shortcomings pertaining to the Atlas system:

(a) The chart fields on an approved accounts payable voucher could be changed while the voucher remained approved;

(b) There was insufficient control over voucher approval as all purchase orders were pre-approved;

(c) The "three-way matching rules" were not working properly. Vouchers passed the three-way matching rules, even when no receipts had been entered;

(d) Users could un-post a receivable that already had a payment applied to it;

(e) There were inconsistencies between the subsidiary ledgers in the control ledger, with the effect that it was possible to overspend budgeted amounts.

187. UNFPA agreed with the Board's recommendation, in conjunction with UNDP, to urgently allocate resources to resolve the shortcomings identified in the Atlas system as soon as possible, in particular those classified as critical.

188. UNFPA informed the Board that both the Fund and its partner agencies were aware of the deficiencies of the system and were determined to address them. The implementation of changes would, however, take time. In addition to the necessary resources being made available, the system's release schedules and risk implications needed to be understood.

Conclusion

189. UNFPA did not have an independently validated comprehensive internal control framework for the Atlas system that would adequately mitigate its control risks. This weakness is compounded by the numerous related deficiencies that the Board identified above, including: inadequate segregation of duties; no operational general ledger; no automated bank reconciliation facility; inadequate controls to prevent changes to payee details; limited monitoring reports; and limited installation of firewalls. While this has not impacted the 2002-2003 financial statements, the Board is concerned that if risks pertaining to this significant event after the balance sheet date are not addressed expeditiously it could result in major future operational difficulties for the organization. Accordingly, the Board has modified its audit report (chap. III, Audit opinion) to emphasize its concerns.

3. Human resources management and payroll management

Leave administration and accruals

190. Leave monitors were nominated to administer leave for their respective divisions at UNFPA headquarters (10 divisions in total). There was a contact person within the Personnel Division who provided guidance on leave rules and regulations to the leave monitors. However, this person did not monitor the administration of leave, which had resulted in the following problems:

(a) Sixty-five leave files were selected for audit purposes. Only 41 of these files (63 per cent) were received. This was mainly due to the fact that the respective leave monitors did not update the manual monthly leave reports, monthly attendance register reports and leave summary reports for the biennium ended 31 December 2003;

(b) A summary of leave taken and accrued to each staff member was not kept. In addition, individual leave credits did not agree with the IMIS report. This is of great concern to the Board because UNDP[7] had encountered problems with the IMIS system and had requested that all leave balances from UNFPA be re-entered into IMIS during June 2003. Due to the lack of an additional leave monitoring tool, it was not possible for the Board to verify the correctness of leave balances on IMIS;

(c) Forty per cent of the 41 leave files received were compiled manually and were not captured on the IMIS system;

(d) Leave monitors and supervisors did not sign individual leave reports and monthly attendance registers as proof of review on a monthly basis. Supervisors and/or heads of the divisions signed all of these reports at the end of the financial year instead of on a monthly basis, which is one of the primary reasons why problems with leave were not found and corrected in a timely manner;

(e) The provisions concerning uncertified sick leave of the UNDP leave entitlement guidelines state that: "a maximum of 3 consecutive days at a time, with the overall limit of 7 days in any calendar year, is permitted. Any excess must be treated as annual leave". In two of the cases tested, the Board noted that the overall limit of 7 days was exceeded without the leave being treated as annual leave as required.

191. Failure to ensure that leave records are correct could expose UNFPA to potential financial loss should incorrect leave payments subsequently be effected. Using the system in place at the time of the audit, it would be difficult to obtain accurate information on the liability of annual leave credits at year-end to be included in the financial statements. With the move to the Atlas system, balances forwarded may not be correct.

192. **UNFPA agreed with the Board's recommendation that it implement procedures to effectively coordinate all leave activities and accurately monitor the recording of leave to ensure that leave transactions are recorded consistently throughout the organization.**

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[7] UNDP leave entitlement guidelines, which are considered to be comprehensive and specific, are also used by UNFPA.

193. UNFPA informed the Board that it issued a follow-up memorandum to all division directors in which they were reminded to ensure compliance with the established procedures with regard to leave administration. In addition, all leave now has to be reported to the Division for Human Resources twice a year in a consolidated leave report. The Atlas system was expected to provide a long-term solution to the shortcomings in monitoring leave records.

Succession planning and recruitment

194. UNFPA could not provide the Board with the number of General Service field staff who had retired during the biennium 2002-2003. However, 22 UNFPA Professional staff and 5 General Service staff are due for retirement between 2002 and 2006. The following table provides a breakdown of staff eligible for retirement by category and year.

Table 5
Staff due to retire

Grade	*2002*	*2003*	*2004*	*2005*	*2006*	*Total*
USG				1		1
D-2				1	1	2
D-1	1		3	3	6	13
P-5			2		2	4
L-5		2				2
Total Professional staff	**1**	**2**	**5**	**5**	**9**	**22**
G-7			1			1
G-6				2	1	3
G-5				1		1
Total General Service staff	**0**	**0**	**1**	**3**	**1**	**5**
Total staff	**1**	**2**	**6**	**8**	**10**	**27**

195. Of 181 Professional staff posts currently occupied, 12 per cent of the staff were due to retire between 2002 to 2006. With the current vacancy rate of 10.2 per cent, the Board is concerned that without proper succession planning, the vacancies in the Professional category could lead to problems in continuity and knowledge management for UNFPA. Information for 2002 and 2003 is included because these personnel did not retire as planned; their contracts were extended until 2004.

196. UNFPA identified the issue of succession planning as a key focus area facing the organization in the medium to long term and established the human resources strategic planning unit, which is to be fully staffed by mid-2004. UNFPA's human resources strategy recommended a competency-based approach to human resources management, including succession planning. A comprehensive competency framework consisting of core and functional competencies for all staff had been completed by August 2003. Based on this framework, a new Performance Appraisal and Development system has been developed and is being introduced to all staff

through transition workshops. UNFPA considered that this would be the basis for the succession plan. It intends to have a comprehensive staffing policy (including recruitment and rotation policies) to be completed by the end of 2004, followed by completion of the succession plan by early 2005, when information from the Performance Appraisal and Development system is available.

197. The Board noted that the average time taken to appoint a candidate, from the time the advertisement was placed to the approval of the Appointment and Promotion Board, was six months. The Board remains concerned that key senior personnel members could leave the organization without the organization being able to fill the posts in a timely manner.

198. **UNFPA agreed with the Board's recommendation that it: (a) reduce recruitment lead time; and (b) intensify its efforts to implement workforce and succession planning.**

199. UNFPA informed the Board that the issue of lead time for recruitment would be one of the priorities of the newly formed recruitment and staffing branch within the Department of Human Resources. In addition, succession planning has been integrated in the terms of reference of a human resources specialist and was one of the objectives of the Department of Human Resources for 2004.

Performance Appraisal Review

200. The Performance Appraisal Review report is an appraisal of the staff member's performance during the year in relation to the job description for the post and the individual performance plan. The results of the yearly review are taken into account in preparing the individual performance plan for the upcoming year.

201. The Board noted that the Performance Appraisal Review report for 2002 was only discussed with some staff members five months after the end of the review period. Furthermore, the Performance Appraisal Review report did not always reflect discussions between the supervisor and staff member on performance during the year.

202. The work on the human resources strategy, the competency framework and a new Performance Appraisal and Development system, together with major realignments at headquarters and in the field, have resulted in delays in conducting performance appraisals in the last two years.

203. UNFPA informed the Board that the Office of Human Resources was to launch a new Performance Appraisal and Development system in January 2004 with the performance-planning phase. The new Performance Appraisal and Development system had been developed as an online system and had clearly set timelines for completion of the various stages of the exercise. A new Professional post, which was expected to be filled in June 2004, was approved in the 2004-2005 budget for this purpose.

204. The Board noted that the time frames set out in UNFPA circular UNFPA/CM/04/12, dated 18 February 2004, in respect of appraisals for 2003 were not met. By May 2004, the following processes had not started by the dates set out in the circular:

(a) Performance Appraisal Reviews for all staff should have been completed and submitted to direct supervisors by 23 February 2004;

(b) Performance Appraisal Reviews for all staff up to and including the P-4 level should have been completed and submitted to the Division of Human Resources, through division focal points, for review by the Decentralized Management Review Group by 12 March 2004;

(c) Performance Appraisal Reviews for all representatives and staff at the P-5 level and above should have been completed and submitted to the Department of Human Resources, through the divisional focal points, for review at the Senior Management Review Group.

205. The Board commends UNFPA for its plans to improve the Performance Appraisal Review system, although the organization has not revised the timelines for the implementation of the system.

206. **UNFPA agreed with the Board's recommendation to: (a) perform yearly performance reviews in a timely manner in order to ensure that relevant and meaningful individual performance plans can be prepared for the following year; (b) revise its timelines for the implementation of the Performance Appraisal Review system; and (c) regularly monitor the performance system to ensure compliance with established deadlines.**

207. UNFPA informed the Board that it has begun to implement the recommendation by revising its time lines. One of the main tasks of the recently recruited human resources specialist would be to ensure timely compliance with established procedures.

Consultants, experts and temporary assistance

208. The Appointment of Limited Duration (ALD) is intended to be a flexible hiring tool for appointments limited in duration (minimum of 6 months and maximum of 3 years or, exceptionally, 4 years). The Special Service Agreement (SSA) is a contracting tool for the hiring of skilled individuals for a range of short duration activities whether in the project context or within the UNFPA office. Consultants hired under this contract may be contracted for one or a series of contracts for a period not exceeding 11 consecutive months or 239 working days.

Appointment on limited duration contracts

209. In November 2003, UNFPA signed a service agreement with UNOPS to administer ALDs and SSAs. The transfer of ALD contracts to UNOPS took many months to complete since ALD actions and files had to be updated. Beginning in November 2003, all new ALD recruitment by UNOPS were to have been processed on time. UNOPS used its policy reference manual for ALDs. The document serves as a reference manual for the authorized officials who recruit individuals under ALD contracts. It provides the relevant UNOPS policies to be complied with, the conditions to be met and the administrative procedures for recruiting individuals under ALD contracts.

210. Contrary to established procedures, the ALD letters of appointment were not always signed prior to the commencement of work. These delays ranged from two to four months after the effective date of appointment. There were also instances where no letters of appointment were found in ALD files. In order to avoid any future disputes, the terms and conditions should be agreed to and accepted in writing before the commencement of work.

211. While it is important that UNFPA know the amount and details of all ALDs in order to maintain control over expenditure, administrative matters (contracts, leave, period of contracts) and compliance with policies and procedures, no complete list of ALDs could be provided.

212. **UNFPA agreed with the Board's recommendation to: (a) issue the contracts for consultants hired under ALDs prior to the commencement of work; (b) properly retain all contracts: and (c) maintain a current list of all ALDs.**

Special Service Agreements

Payment of fees

213. Sections 46 and 47 of the UNFPA guidelines on recruiting international consultants (used from 1 January 2002 to 31 October 2003) and sections 5.9 and 28.0 of the relevant UNOPS guidelines (used after 1 November 2003) governed the documentation required before SSAs could be paid. Both guidelines required that a certification of the services provided under the SSA were satisfactorily performed (evaluation reports) and that attendance records were submitted prior to the payment for such services. The Board noted, however, that performance evaluation forms were not completed and attached to the certification of payment forms in 82 per cent of the cases in the sample selected. Also, submission of attendance records was not attached to the certification of payment form.

214. **UNFPA agreed with the Board's recommendation to enforce compliance with all applicable guidelines for Special Service Agreements in respect of performance and attendance.**

Prerequisites for hiring

215. Section 9 of the SSA guidelines requires that all prospective candidates for hiring under SSAs must submit a medical certificate of good health. The hiring of individuals in poor health could lead to disruption in the work for which the person was hired. The Board noted that medical certificates were not always included in SSA files.

216. **UNFPA agreed with the Board's recommendation to obtain and file medical clearance certificates before contracting staff on special service agreements (SSA) as required under the guidelines.**

217. UNFPA informed the Board that it has subsequently issued instructions to UNOPS that it include performance and attendance sheets in the SSA files and require a medical certificate as a prerequisite for hiring a consultant.

4. Training

218. The Board identified staff training as a topic to be addressed throughout all United Nations agencies, funds and programmes. Consequently, it reviewed the training activities of UNFPA that are under the control of the Learning and Training Branch, which is a division of the Office of Human Resources of UNFPA. This review was a diagnostic overview of how training activities were managed within UNFPA and the processes and procedures used in this regard.

219. During the biennium 2002-2003, reports detailing all expenditures incurred for training purposes were not readily available. UNFPA was in the process of formulating an expenditure report, which would be regularly updated. While, with the implementation of the Atlas system, it was expected that a reporting function for training expenditures would be available, it transpired that this function had not yet been tested. These expenses were monitored through the use of Excel spreadsheets but, owing to the number of country offices and the limited capacity within the training branch, this spreadsheet was not updated and reviewed regularly.

220. UNFPA did not use various ratios as an additional tool for evaluating the performance of training activities. UNFPA informed the Board that the use of ratios as an additional tool would only be possible with the implementation of a reporting function within the Atlas system specifically modified for learning and training purposes.

221. While the Training Advisory Committee has a major role in guiding UNFPA's staff training programme, it had no formal terms of reference and composition. The Learning and Career Development Branch was revising the reference and mandate of the Training Advisory Committee after which it would be submitted to the Office of Human Resources for approval. A representative from the Staff Council was not included in the discussions by the Training Advisory Committee on training needs.

222. UNFPA was in the process of drafting a human resources and training strategy. A work plan for 2004 that addressed key elements of the training strategy had been drafted and was with the Office of Human Resources for approval as at May 2004. After approval, it would be submitted individually to all members of the UNFPA Executive Committee before it becomes definitive.

223. It was evident that UNFPA took various steps to improve the quality of its Training Division. This included appointing a new Chief of the Career Management Branch. The Board commends UNFPA for improving the current learning structures. The Board noted that the importance of sufficient training, career development and evaluation of implementation of training was not communicated throughout UNFPA. The training budget was not specifically allocated to the Learning and Career Development Branch. The Branch, without being able to have direct input on training issues and the ability to manage the training budget, would find it difficult to implement new learning programmes and monitor the effectiveness of training and development.

224. **UNFPA agreed with the Board's recommendations to: (a) expedite implementation of the expenditures report detailing all expenses incurred for training purposes, including appropriate ratios; (b) expedite the revision of the terms of reference and mandate of the Training Advisory Committee; (c) include a representative from the Staff Council in the discussions by the Training Advisory Committee on training needs; (d) approve and implement the work plan for 2004 as soon as possible; and (e) communicate the learning strategy throughout the organization and ensure that the Learning and Training Branch has the necessary resources and mandate to implement the strategy effectively.**

225. UNFPA informed the Board that it was addressing recommendation (a), while recommendations (b) and (c) had already been implemented. With regard to recommendations (d) and (e), the work plan was under consideration for approval

and would be implemented and communicated thereafter. Furthermore, the learning strategy was communicated during the transition workshops. UNFPA was also considering the resources of the Learning and Career Development Branch in light of the tasks allocated to it.

5. Travel

226. In the second half of 2002, the Office of Audit and Performance Review,[8] UNFPA's former internal auditors, conducted a management audit of travel undertaken by headquarters staff during the period from 1 January 2001 to 31 July 2002. The purpose of the review was to ensure compliance with policies and procedures, the adequacy of internal controls and the efficiency of the services and to assess the benefits derived from the travel. The focus of the audit was on mission travel undertaken by headquarters staff.

227. The overall opinion of the internal audit was that UNFPA's management of mission travel undertaken by headquarters staff was deficient. Control weaknesses were significant enough to have a negative impact on performance.

228. Subsequently, UNFPA revised and strengthened its controls to address the problems identified. The Board followed up on the findings of the internal audit and performed additional tests covering the period subsequent to July 2002.

Overview

229. Travel expenditures amounted to $10 million, some 1.3 per cent of total expenditures. Headquarters divisions and offices were responsible for the management of travel and the reporting on the results achieved.

230. The UNDP Travel Services Section was responsible for approving travel requests originating from UNFPA and producing travel authorizations after verifying that the travel was within the travel guidelines, policies and procedures. In addition, the Travel Services Section processed the travel advances and claims, managed the agreement with the travel agent and recovered from UNFPA its portion of the administration costs. While there was no specific agreement covering the travel services provided by UNDP to UNFPA, the services were covered under the umbrella agreement for services provided by UNDP to the Fund.

231. UNFPA was apportioned costs at 5 per cent of the total annual cost of UNDP travel operations, which amounted to $610,000 for the biennium 2002-2003. UNFPA's share of both number of tickets issued (1,003) and value of tickets issued ($1.96 million) was 14 per cent of the combined tickets and ticket value of UNDP, UNFPA and UNOPS.

232. A new web-based system for travel, based on the Atlas system, was intended to better monitor travel practices in general and travel budget efficiency in particular.

[8] The internal audit services at the time were provided by UNDP's Office of Audit and Performance Review.

Analysis of travel expenditure

233. Of the biennial support budget, UNFPA spent 51 per cent and 85 per cent of the amount allotted for travel for 2002 and 2003, respectively. However, UNFPA was not able to provide the overall budget for project travel since each project's budget was dependent on programme ceilings or contributed resources for trust funds. UNFPA informed the Board that, except for the account codes specifically dedicated to budget for travel expenditures, such expenditures were accounted for against other codes such as miscellaneous expenditure if the person travelling was not a UNFPA staff member.

234. In 2002, total travel expenditure amounted to $6 million, of which $0.6 million was funded by the biennial support budget and $5.4 million was funded by projects. Expenditure of $4 million was incurred in 2003, of which $0.3 million was funded by the biennial support budget and $3.7 million was funded by projects. Total travel expenditures in 2003 represented a decrease of 33 per cent from 2002.

235. **UNFPA agreed with the Board's recommendation to introduce monitoring mechanisms to ensure that project travel falls within the budgeted amount allocated for travel expenditure.**

Travel plans

236. The Office of Audit and Performance Review reported that the preparation and utilization of travel plans had not contributed to the effective planning of staffing and travel resources during the period reviewed. UNFPA subsequently issued circular UNFPA/CM/03/41 on 7 July 2003, which provided guidelines to address the deficiencies. However, by April 2004, many of the same issues relating to the travel plans remained, as outlined below:

(a) The estimated cost of planned missions were not always indicated;

(b) Some divisions were late in submitting their travel plans to the Deputy Executive Directors (Management and Programme) for authorization;

(c) The travel plans for five divisions covering the period from 1 January 2003 to December 2003 were not available for review;

(d) The budget account codes to be charged for the travel were not indicated in some travel plans;

(e) Some travel plans were submitted after the travel had taken place.

237. In its review, the Office of Audit and Performance Review also found travel costs of $26,915 that were charged to projects whose objectives, work plans and budgets did not clearly provide for such costs. UNFPA could not provide evidence that this was rectified.

238. **UNFPA agreed with the Board's recommendation to prepare travel plans in accordance with its guidelines.**

Administration of travel requests

239. UNFPA issued circular UNFPA/CM/00/59 on 13 July 2000, indicating that all travel requests should be submitted at least three weeks prior to departure date in order to ensure cost savings in the issuance of airline tickets. If that was not

possible, staff members were to provide a written justification for the late submission of travel requests. In a message dated 16 October 2002, addressed to all staff, the Chief of the Procurement and Facilities Management Branch stated that the three-week requirement continued to be completely ignored by the vast majority of travellers and that UNFPA had incurred considerable cost because of the last minute travel requests. In addition, a UNFPA study conducted in 2003 reported that significant cost-saving could have been secured had the three-week rule been complied with. In addition, a UNFPA study recommended that lead time be increased to 25 days. Briefings were held with division heads and the travel agent to educate senior staff of the importance of ways to reduce travel cost by, inter alia, providing advance notice, being flexible and the use of alternate routing. The Board found that travel requests were still being submitted between one and two days prior to the departure date.

240. In most of the cases, the travellers did not provide written justification for the klate submission of the travel requests. This also placed an additional burden on the UNFPA Facilities Management Unit, the UNDP Travel Services Section and the travel agency in ensuring that the travel was processed in time for the staff member's departure.

241. **The Board recommends that UNFPA enforce compliance with its guidelines with regard to the timely submission of travel requests.**

242. UNFPA informed the Board that it would continue its efforts to enforce compliance requiring the timely submission of all travel requests. All late requests require justification and need to be authorized by the relevant Deputy Executive Director.

Submission of travel claims

243. The Facilities Management Unit notified travellers that their travel advances had been transferred to their bank accounts. The notification included a reminder for the staff members to submit a travel claim after the completion of the travel.

244. The Board performed a review of a sample of trips undertaken in 2003 and noted that in many instances travel claims were submitted late, between 30 and 90 days after completion of travel. There were also cases where travellers had completed travel claims that were not submitted to the Facilities Management Unit, but kept in the originating divisions. In addition, there were cases where the travel claim forms were only completed following the Board's audit, even though the travel had been undertaken earlier in the year.

245. In the absence of supporting documents covering travel, there is a risk that the organization may have funded travel that never took place or that travel was not undertaken as authorized.

246. **The Board recommends that UNFPA: (a) strengthen monitoring of the timely submission of travel claims by utilizing available reports; (b) follow-up on outstanding travel claims to fully recover all travel advances; and (c) to the extent practicable, refrain from authorizing additional travel advances if previous travel claims have not been submitted.**

247. UNFPA informed the Board that its new web-based system enhanced its ability to actively track and expedite reconciliations, which has led to increased compliance by travellers.

Excessive mission travel

248. The Office of Audit and Performance Review noted that the management and monitoring of activities in three geographical divisions and in two technical branches may have been adversely affected since the directors and chiefs travelled extensively during the period under review. The Board noted that this trend continued during the biennium 2002-2003 as highlighted in table 6 below. UNFPA did not optimize using alternatives to travel such as videoconferencing.

Table 6
Excessive mission travel

Title	*Mission days in 2002*	*Cost (in US$)*	*Mission days in 2003*	*Cost (in US$)*	*Total mission days in 2002-2003*	*Total cost (in US$)*
Director — Division A	101	60 105	99	90 406	200	150 511
Chief — Division B	73	24 683	123	64 993	196	89 676
Chief — Division C	96	50 033	100	69 919	196	119 952

249. **UNFPA agreed with the Board's recommendation that it evaluate future travel plans with a view to achieving the desired outcomes using alternative means, including videoconferencing.**

6. Results-based budgeting

250. UNFPA was in the process of designing and implementing a results-based budgeting approach under its results-based management framework. UNFPA had taken efforts to formulate a balanced scorecard approach with a view to linking this to its biennial support budget and multi-year funding framework. Furthermore, in future years, UNFPA intended to present the biennial support budget estimates and the multi-year funding framework at the same Executive Board session to ensure comprehensive planning and approval.

251. A working group on the budget was formed in February 2004 to advise and make recommendations to the UNFPA Management Committee on matters related to the biennial support budget. In particular, the working group was to advise on the transition from an input-based budget approach to full results-based budgeting. An improved linkage between resources requested and results were expected for the biennial support budget for the biennium 2006-2007.

252. As a tool of results-based management, results-based budgeting incorporated the following generic framework and principles with regard to implementation.

Planning

253. The approved multi-year funding framework (2004-2007) is UNFPA's medium-term strategic plan, identifying goals and outcomes and presenting a set of indicators to track progress in achieving those results. It also had a section on "Managing for results", which identified key dimensions of organizational

effectiveness. The multi-year funding framework and the "Managing for results" framework would be the basis for institutional reporting to the Executive Board.

254. UNFPA was engaged with other agencies of the United Nations system in establishing a general framework for a transition to results-based management and results-based budgeting. Once this conceptual structure is finalized, it intended to customize a plan that would meet its own needs and purposes. UNFPA also planned to contract external consultants to solicit advice with the primary purpose of assessing its readiness and establishing a strategy for transition to results-based budgeting.

Monitoring

255. UNFPA also planned to set up a balanced scorecard in 2004 to serve as a performance management tool. Its staff, both at headquarters and in the field, selected indicators for the "Management for results" framework, which would be included in the balanced scorecard. Once the indicators are agreed upon, UNFPA planned to implement the balanced scorecard for a trial period of six months. For monitoring programme progress and organizational effectiveness, UNFPA envisaged full utilization of the Atlas system. Ideally, the balanced scorecard would also be integrated in the system.

256. **UNFPA agreed with the Board's recommendation to test the tools within the Atlas system that are expected to facilitate the implementation of results-based budgeting.**

Reporting

257. UNFPA proposed that a comprehensive report to the Board on the multi-year funding framework, covering both development results and organizational effectiveness, would be done every other year, beginning in 2005. In the years in between, the Executive Director's report to the Executive Board would focus on selected issues related to programme and organizational effectiveness in order to harmonize UNFPA and UNDP reporting. This proposal was expected to be submitted to the Executive Board for approval in June 2004.

258. The Executive Board required UNFPA to review the system for resource allocation to country offices on a quinquennial basis. This review was in progress and the new system was expected to be submitted to the Executive Board for approval in 2005 and implemented from January 2006. UNFPA intended to align the indicators, whenever possible, to the multi-year funding framework and Millennium Development Goals indicators. UNFPA also envisaged that the country office or a derivative of it might also be used to apportion biennial support budget resources, in addition to programme resources. This would allow an allocation of support resources more closely aligned to development needs and expected results.

259. UNFPA's transition to results-based management and results-based budgeting was being addressed in the wider context of the High-Level Committee on Management. UNDP and the United Nations Children's Fund (UNICEF) were engaged with UNFPA in developing a conceptual strategic approach to results-based management suitable to the United Nations area of work.

260. **The Board encourages UNFPA to continue with its development of results-based management and results-based budgeting in coordination with other organizations in order to benefit from best practices and lessons learned.**

261. UNFPA planned to use the Atlas system to conduct a fit-gap and configuration exercise in preparation for the biennial support budget for 2006-2007. The system would also be utilized for the establishment of a balanced scorecard, initially establishing a basic model, upon which a more comprehensive one would be built with data fed automatically from the data warehouse.

7. Treasury function

262. The UNDP Treasury also provides services to other United Nations agencies such as UNFPA and UNOPS in the areas of cash and foreign exchange management services. The Board performed a high-level treasury review of UNDP's treasury function and made a number of recommendations to address key operational risks and controls in line with best practice. These risks may be applicable to UNFPA as well.

263. Although UNFPA outsourced its treasury function to UNDP, UNFPA is still ultimately accountable for the treasury activities that pertain to its operations. While a service-level agreement did exist with UNDP, this may need revision owing to the recommendations of the Board and the introduction of the Atlas system.

264. **UNFPA agreed with the Board's recommendation that it: (a) consider the impact of the Board's findings regarding the management of the UNDP Treasury in order to address all risks pertaining to UNFPA; (b) develop compensating controls where necessary; and (c) finalize an updated service-level agreement with UNDP setting out each party's responsibilities.**

8. Internal oversight

Audit charter

265. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

266. UNFPA's internal audit functions were outsourced to UNDP until 1 January 2003. Thereafter, following approval by the Executive Board in September 2002, the function became incorporated as part of the newly established Division for Oversight Services which consisted of oversight and evaluation as well as audit services.

267. UNFPA's internal audit has adopted the standards of the Institute of Internal Auditors. The Institute prescribes that the purpose, authority and responsibility of the Internal Audit function are set out in a written document (charter) approved by the audit committee or (in this case the oversight committee) and updated annually. It is also used to educate the organizations' own personnel on the role and importance of the internal audit function.

268. The Chief, Audit Services Branch, is a member of the Management Committee and is thus involved in the deliberations of policies and procedures on management issues. Without a detailed charter, the true function, purpose and positive attributes of the internal audit function could be misunderstood by management, while possibly compromising independence.

269. UNFPA's internal audit functions, which are set out in its circular UNFPA/CM/03/4 of 21 January 2003, include risk analyses, accessing control systems, management auditing, monitoring of service received from UNDP's regional audit centres advising UNFPA management, monitoring of project audits performed by Governments and non-governmental organizations, monitoring the implementation of audit recommendations and performing/arranging special investigations.

270. The Oversight Committee did not explicitly give a detailed description of the internal audit's position within the UNFPA organizational structure, nor did it give authorization for the internal audit to access records, personnel and assets. Although, the Oversight Committee approved the internal audit plan for 2004 in November 2003, the scope of planned activities were not defined and explained in detail to clarify any expectation gap that might exist. The circular has not been revised since January 2003 and important developments listed in the audit plan have not been communicated to the rest of UNFPA.

271. The internal audit has not been involved in functions where they could have made a positive contribution, such as reviewing policies and procedures in place to ensure the smooth transition to the Atlas system; or reviewing the data-cleaning exercise required for migration to the system.

272. **UNFPA agreed with the Board's recommendation to: (a) develop an internal audit charter detailing the purpose, authority and responsibility of the internal audit function; and (b) educate personnel about the functions and positive impact of an internal audit function.**

273. UNFPA informed the Board that an audit charter would be developed in 2004 and would include the purpose, authority and responsibility of the Audit Services Branch.

Oversight capacity and delivery

274. The Oversight and Evaluation Branch had authorized posts for one chief, two evaluation advisers and two support staff. The Audit Services Branch had authorized posts for one chief, four audit specialists and two support staff. Internal audit services were also outsourced in the Asia and the Pacific and Arab States at a budgeted cost of $176,000. In addition, UNFPA allocated $304,500 to UNDP to cover the cost of audit services provided by the UNDP regional audit service centres.

275. In the Oversight and Evaluation Branch one of the evaluation adviser posts was vacant for three months, while one of the General Service staff posts was vacant for all of 2003. In the Audit Services Branch, two audit specialist posts were vacant the entire year and one was vacant for six months. The Board was pleased to note that all three of the audit specialist posts were filled in 2004. From January 2004, the authorized positions in the Division for Oversight Services were increased to include one new audit specialist for the Audit Services Branch and one new

evaluation adviser for the Oversight and Evaluation Branch. The Division for Oversight Services was in the process of short-listing candidates by April 2004.

276. The Board reviewed the internal audit output during the biennium as detailed below:

Table 7
Audit reports issued during 2002-2003

	Reports issued		
Internal audit and oversight services provided	*2002*	*2003*	*Total*
Management reviews and advisory services	10	4	14
Internal audits/reviews of functions	1	1	2
Internal audits/reviews of country offices	27	18	45
Total	**38**	**23**	**61**

Oversight reports

277. Of 61 UNFPA audits/reviews of management audits, three related to UNFPA headquarters. As in the previous biennium, there were no audits covering the reliability of the accounting and other data developed by UNFPA for the production of financial statements.

278. UNFPA informed the Board that there were two major reasons for the 39 per cent decrease in the number of audit reports issued in 2002 (38) compared to those issued in 2003 (23): (a) the lack of capacity; and (b) the impact of the restructuring of UNDP's Office for Audit and Performance Review during 2003, which resulted in a disruption in the internal audit services provided by the regional audit service centres.

279. **UNFPA agreed with the Board's recommendation to: (a) expedite the filling of vacant posts in the Division for Oversight Services; and (b) improve its audit coverage on the reliability of the accounting and other data leading to the production of financial statements.**

Assessment of country offices

280. For each country office, the Division for Oversight Services assessed the adequacy of internal controls according to the following ratings: satisfactory; partially satisfactory; and deficient. Special audit reports did not have ratings. Table 8 shows the breakdown by overall rating of the internal audit reports issued for UNFPA during the biennium.

Table 8
Country office assessment

Year	*Satisfactory*	*Partially satisfactory*	*Deficient*	*Total*
2002	14	22	5	41
2003	7	11	4	22

281. The Board noted that the adequacy of internal controls was assessed as less than satisfactory in 42 (67 per cent) of the audits conducted. A total of 2,093 recommendations were made in 2002 and 2003.

282. In paragraph 112 of its previous report, the Board recommended that UNFPA should follow up with country offices on all outstanding recommendations and enforce the time restrictions given to country offices so as to facilitate a timely response.

283. As previously mentioned, UNFPA maintained details of recommendations and the responses thereto in the comprehensive audit and recommendations database system. Country offices have direct access (Internet-based) to this database and were required to update the status of implementation of audit recommendations online. As of UNFPA delegated the monitoring of the progress of the recommendations to the geographic units.

284. In July 2003, the Division for Oversight Services requested a status report, by September 2003, from geographic divisions on the implementation of internal audit recommendations. All four geographic divisions only responded by February 2004, some six months after the report was required. The Board noted inconsistencies in the details of these reports and also noted that country offices did not always provide the required data. In other cases, the offices submitted the data directly to the geographic division and not on the database. One report also noted that the geographic division had only reviewed the implementation of recommendations on a sample basis.

285. While the Board acknowledges that some form of monitoring took place by the geographic divisions, the recommendations of internal audit were not being systematically followed up on a continuous basis.

286. **UNFPA agreed with the Board's recommendation to: (a) follow up systematically on the implementation of internal audit recommendations; (b) ensure that all recommendations and the follow-up actions are recorded in the audit database; and (c) continue to task the Internal Audit section with the monitoring of the follow-up action of the geographic units.**

287. UNFPA informed the Board that the Audit Services Branch would continue to monitor the Geographic Divisions' follow up on the implementation of recommendations.

9. Shared services

288. In paragraph 97 of its previous report, the Board recommended that UNFPA should immediately conclude service-level agreements with UNDP to ensure that services and costs are defined and to enable UNFPA to be fully accountable for transactions incurred on its behalf.

289. A memorandum of understanding (UNDP cost recovery for services at the programme country level: universal price list) was signed by UNFPA and UNDP in July 2003, retrospective from 1 January 2003. The agreement outlined the standard costs of services provided by UNDP to UNFPA at the country office level, based on the "true hourly cost" methodology.

290. For services provided by UNDP to UNFPA at headquarters level, another memorandum of understanding, setting forth the general principles and

methodology governing reimbursement arrangements for services provided by UNDP, was signed on 20 February 2003. This agreement sets out the general principles and methodology governing cost recovery between UNDP and UNFPA.

291. While these agreements addressed cost issues, they did not address the Board's recommendation in full. There was still no agreement between UNFPA and UNDP defining the specific services and responsibilities that were supplied. The services provided by UNDP at country office level include payments, staff recruitment, personnel management, issuing of identity documents, local drivers licences, vehicle registration, issuing visas, travel arrangements, procurement, disposal of equipment and shipment arrangements. At headquarters level, the services provided include treasury functions, legal and procurement services, some human resource activities and the implementation of the Atlas system. Shared services continue to function without agreed deliverables in the areas of accountability and performance measures.

292. UNFPA and UNDP agreed to postpone the finalization of service level agreements until after the introduction of the Atlas system in January 2004. It was a shared view that with the introduction of the system processes, there would be a significant change in the distribution of work between agencies and in prices and that, therefore, establishing service-level agreements based on discontinued systems and processes would not be an effective approach. UNFPA met with UNDP in April 2004 and a working group was formed. UNFPA hoped to have the service-level agreements concluded by July 2004.

10. Donor reporting

293. UNFPA receives contributions from donors for regular and other resources. Contributions received for other resources included trust fund and co-financing activities. These contributions are earmarked for specific projects and therefore the donors entered into agreements with UNFPA. In the majority of agreements, the donor requires two types of reports from UNFPA, namely, a financial report and a progress (technical) report.

294. In the case of all the donor agreements selected in our sample, UNFPA had fulfilled its obligations in relation to the issuing of financial reports. The progress (technical) reports indicate the actual progress of implementing the specific project. A large volume of the substantive progress reporting was done directly by UNFPA country offices. The issuing of the progress reports was not monitored by or forwarded to any unit at headquarters. For this reason, it was not possible to determine whether all the required progress reports were issued during the year. Outstanding reports were only identified when donors followed up with UNFPA headquarters.

295. **UNFPA agreed with the Board's recommendation to implement procedures to monitor the issuing of progress reports as required in terms of donor agreements.**

11. Procurement

296. In paragraph 105 of its previous report, the Board recommended that all UNFPA country offices should complete receipt and inspection reports within three

weeks of the delivery of such goods or services and forward reports to the headquarters Procurement Unit, as prescribed in the UNFPA Procurement Manual.

297. The Board noted from a sample selected that receiving and inspection reports for 19 of the 20 items (95 per cent) were not kept on file. This was in cases where headquarters had procured items on behalf of the country offices and the country offices had not forwarded such reports to headquarters.

298. Lengthy time delays and inadequate follow-up procedures could lead to UNFPA compromising its right of recourse against the supplier for damaged goods delivered.

299. **The Board reiterates its recommendation that UNFPA country offices complete receipt and inspection reports within three weeks of the delivery of goods and services and forward reports to the headquarters Procurement Unit. The Board further recommends that UNFPA headquarters monitor the submission of receiving and inspection reports and follow up on reports not received.**

300. UNFPA informed the Board that country offices have been advised of the requirement to complete receipt and inspection reports on a number of occasions. Furthermore, the Atlas system allows for the generation of a report, which shows those purchase orders that have been delivered but for which no receipt and inspection reports have been submitted. The receipt of these reports would be monitored by the Procurement Services Section on a monthly basis.

301. In paragraph 107 of its previous report, the Board reiterated its recommendation that UNFPA should develop a process for formally monitoring the performance of its suppliers. UNFPA had an approved suppliers list that was evaluated every 18 months. However, the policies and procedures did not mention this process. While annex II of the UNFPA procurement policies provides guidance on the minimum lead times, the UNFPA Procurement Section did not track progress of purchase orders. The quality of goods delivered and compliance to specifications were also not monitored.

302. Information such as lead-items and quality of goods delivered is important in evaluating suppliers used by UNFPA. Using suppliers that have proven themselves to be economical and efficient would help in avoiding long lead-times.

303. **UNFPA agreed with the Board's recommendation that it implement procedures to: (a) monitor and follow-up the progress of purchase orders; and (b) document the practices regarding the use of an approved suppliers' list in the UNFPA procurement policies in order to ensure consistency and transparency.**

304. UNFPA informed the Board that the procurement procedures that were under consideration would incorporate this aspect of the procurement process.

12. Fraud and presumptive fraud

305. UNFPA provided the Board with a summary of cases of fraud and presumptive fraud reported for the biennium 2002-2003. The Board noted that only 99 out of the 146 country offices had submitted this information to headquarters. The Board observed, therefore that the summary provided by UNFPA may not include all cases of fraud and presumptive fraud for the biennium 2002-2003.

306. UNFPA agreed with the Board's recommendation that it obtain the outstanding fraud and presumptive fraud reports from the country offices and take appropriate action to address the outstanding cases reported.

307. The summary of fraud and presumptive fraud indicates that cases of fraud were reported by five of the country offices. UNFPA, however, could only provide the Board with information relating to the fraud cases for two of the offices, as described below:

(a) During the execution of three projects in Bolivia, the manipulation of public documents, including quotations, invoices and falsification of signatures in payrolls for daily subsistence allowance, were detected. This resulted in a total amount of $18,784 being misappropriated. UNFPA informed the Board that the full amount was recovered from the individual and that his service contract, which expired on 30 June 2003 was not renewed;

(b) Misuse of satellite phones in Afghanistan resulted in cost of $63,680. UNFPA informed the Board that this was as a result of SIM cards used in the phones that were sent in for repairs being stolen. Isolation of responsibility was not possible and therefore the amount was considered to be irrecoverable.

308. UNFPA agreed with the Board's recommendation to provide full details of all cases of fraud and presumptive fraud.

309. The Board also followed up cases of fraud and presumptive fraud in paragraphs 115 to 118 of its previous report, in which 21 cases were reported (7 with a total value of $33,386 and the balance yet to be determined). UNFPA could not provide the Board with any details about the follow-up action and status of the above-mentioned cases.

310. In its paragraph 116 of its previous report, the Board also reported a pending case relating to an overpayment of up to $1.8 million to a contractor during the biennium 1998-1999. UNFPA informed the Board that while some progress had been made the case was still in progress.

Fraud prevention strategy

311. In paragraph 118 of its previous report, the Board recommended that UNFPA should develop a fraud prevention plan, which should include fraud awareness initiatives. In order to develop the plan, the Board recommended that UNFPA should discuss its proposed features with the concerned units of the United Nations and other funds and programmes in order to obtain the benefit of best practice, where available, in specific or all elements being considered.

312. UNFPA, in conjunction with UNDP and the United Nations Office for Project Services, compiled a fraud prevention strategy, which included training staff on principles of fraud awareness by 2005, publishing a handbook on fraud prevention by 2005 and establishing a fraud hotline (no target date specified). The Board, noted that the strategy was pending approval as of May 2004.

313. UNFPA, also in conjunction with UNDP and the United Nations Office for Project Services, compiled a fraud policy statement, which was pending approval. UNFPA indicated that it expected to finalize and issue the statement to staff by mid-2004.

314. **UNFPA agreed with the Board's recommendation, in conjunction with UNDP and the United Nations Office for Project Services, to intensify its efforts to finalize the fraud prevention strategy and fraud policy statement.**

D. Acknowledgement

315. The Board of Auditors wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Director of the United Nations Population Fund and her staff.

(*Signed*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa

(*Signed*) Guillermo N. **Carague**
Chairman, Philippine Commission on Audit

(*Signed*) François **Logerot**
First President of the Court of Accounts of France

9 July 2004

Note: The members of the Board of Auditors have signed only the original English version of the audit opinion.

Annex

Summary of the status of implementation of recommendations for the biennium ended 31 December 2001[a]

Topic	*Implemented*	*Under implementation*	*Not implemented*	*Total*	*Reference to inclusion in current report*
Financial overview	Paragraph 17			1	-
United Nations Stand-by Arrangements System	Paragraph 21 Paragraph 23 Paragraph 25			3	-
Reconciliations	Paragraph 31	Paragraph 29		2	Paragraphs 52-53
End-of-service benefits		Paragraph 33		1	Paragraphs 59-62
Accounts receivable		Paragraph 35		1	Paragraphs 73-75
Reserve for field accommodation	Paragraph 38			1	-
Funding of country offices	Paragraph 40			1	-
Trust funds		Paragraph 43		1	Paragraphs 68-72
Programme expenditures	Paragraph 86	Paragraph 59		12	Paragraphs 79-84
		Paragraph 61			Paragraphs 85-88
		Paragraph 63			Paragraphs 89-92
		Paragraph 69			Paragraphs 93-98
		Paragraph 72			Paragraphs 99-102
		Paragraph 75			Paragraphs 109-112
		Paragraph 78			Paragraphs 103-108
		Paragraph 80			Paragraphs 113-118
		Paragraph 89			Paragraphs 119-120
		Paragraph 91			Paragraphs 121-124
		Paragraph 93			Paragraphs 125-128
Shared services		Paragraph 97		2	Paragraphs 288-292
		Paragraph 99			
Asset management		Paragraph 103		1	Paragraphs 34-51
Procurement		Paragraph 105		2	Paragraphs 296-300
		Paragraph 107			Paragraphs 301-304
Internal oversight reports		Paragraph 112		1	Paragraphs 281-287
Information and communications technology		Paragraph 114		1	Paragraphs 130-131
Cases of fraud and presumptive fraud		Paragraph 118		1	Paragraphs 311-314
Total number	**8**	**23**	**0**	**31**	
Percentage	**26**	**74**	**0**	**100**	

[a] See *Official Records of the General Assembly, Fifty-seventh Session, Supplement No. 5G* (A/57/5/Add.7).

Chapter III
Audit opinion

We have audited the accompanying financial statements of the United Nations Population Fund, comprising statements numbered I to IV, schedules numbered 1 to 8, and the supporting notes for the biennium ended 31 December 2003. These financial statements are the responsibility of the Executive Director. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency and in conformity with international standards on auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, and as considered by the auditor to be necessary in the circumstances, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Executive Director, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for the audit opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position as at 31 December 2003 and the results of operations and cash flows for the period then ended, in accordance with the stated accounting policies of the United Nations Population Fund as set out in note 2 to the financial statements, which were applied on a basis consistent with that of the preceding financial period.

Without qualifying our audit opinion expressed above, we draw attention to our findings on the following matters:

(a) Adequate assurance could not be obtained to verify the validity, accuracy and completeness of non-expendable equipment of $57.5 million as disclosed in note 25 to the financial statements;

(b) Unreconciled inter-agency balances were sometimes long-outstanding, while the balances in other agencies' accounts may also be inaccurate. The value of such balances may therefore be misstated in the financial statements; and

(c) UNFPA implemented a new enterprise resource planning system in January 2004. However, the Board noted control deficiencies and especially the lack of an independently validated internal control framework. This event after the balance sheet date is regarded as a significant risk to UNFPA's operations.

Furthermore, in our opinion, the transactions of the United Nations Population Fund that have come to our notice or which we have tested as part of our audit, have in all significant respects been in accordance with the Financial Regulations and Legislative authority.

In accordance with article VII of the Financial Regulations, we have also issued a long-form report on our audit of the financial statements on the United Nations Population Fund.

(*Signed*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa

(*Signed*) Guillermo N. **Carague**
Chairman, Philippine Commission on Audit

(*Signed*) François **Logerot**
First President of the Court of Accounts of France

9 July 2004

Note: The members of the Board of Auditors have signed only the original English version of the audit opinion.

Chapter IV
Certification of the financial statements

30 April 2004

I certify that, to the best of my knowledge, information and belief, all material transactions have been properly charged in the accounting records and are properly reflected in the appended financial statements.

I acknowledge that:

- The Management is responsible for the integrity and objectivity of the financial information included in these financial statements.
- The financial statements have been prepared in accordance with the United Nations system accounting standards and include certain amounts that are based on Management's best estimates and judgements.
- Accounting procedures and related systems of internal control provide reasonable assurance that assets are safeguarded, that the books and records properly reflect all transactions and that, overall, policies and procedures are implemented with an appropriate segregation of duties. The Internal Auditor continually reviews the accounting and control systems. Further improvements are being implemented in specific areas.
- The Management provided the Internal Auditor with full and free access to all accounting and financial records.
- The recommendations of the United Nations Board of Auditors and the Internal Auditor are reviewed by the Management. Control procedures have been revised or are in the process of revision, as appropriate, in response to these recommendations.

I am in receipt of a letter of certification from the Director, UNDP Office of Finance and Administration, which provides the same assurances with respect to UNDP accounting procedures and related systems of control to the extent that services are provided by UNDP to UNFPA, as per the management agreement currently in force and its subsequent amendments, and in conformity with UNFPA Financial Rule 116.2.

(*Signed*) Subhash K. **Gupta**
Director
Division for Management Services

The Chairman of the Board of Auditors
United Nations
New York

Chapter V

Financial statements for the biennium ended 31 December 2003*

Statement 1

Income and expenditures and fund balances for the biennium ended 31 December 2002

1.1 Overview

(Thousands of United States dollars)

		Regular Resources		Other Resources	
		2002-2003	2000-2001	2002-2003	2000-2001
INCOME					
Contributions	Schedule 1	528 195	520 365	213 118	266 596
Exchange Adjustments		10 399	(5 471)	-	-
Contributions - net		**538 594**	**514 894**	**213 118**	**266 596**
Interest Income		8 338	13 264	5 401	10 955
Other Income	Schedule 2	5 208	4 421	61	323
TOTAL INCOME		**552 140**	**532 579**	**218 580**	**277 874**
EXPENDITURE					
Programme Activities	Schedules 3,4	379 983	299 173	222 538	186 902
Technical Advisory Programme	Note 2(i)	31 389	35 133	34	309
Programme Support Services					
- Implementing Agencies	Note 2(j)	2 919	3 109	1 517	1 397
- UNFPA	Notes 2(j), 11	7 234	6 774	1 305	938
Programme Expenditure		**421 525**	**344 189**	**225 394**	**189 546**
Net Biennial Support Budget Expenditure	Schedule 5, Note 11	132 827	113 519	-	-
Implementation of Enterprise Resource Planning System	Note 12	7 322	-	-	-
Termination Payments	Note 13	1 777	-	-	-
Other Expenditure	Schedule 2	58	7 469	1 053	542
TOTAL EXPENDITURE		**563 510**	**465 177**	**226 447**	**190 088**
EXCESS / (SHORTFALL) OF INCOME OVER EXPENDITURE		**(11 370)**	**67 402**	**(7 867)**	**87 786**
Provision for Doubtful Collection of Contributions Receivable	Note 7	734	-	-	-
Prior Period Adjustments	Note 9	17	-	(162)	-
NET EXCESS / (SHORTFALL) OF INCOME OVER EXPENDITURE		**(12 121)**	**67 402**	**(7 705)**	**87 786**
Fund Balances at 1 January		39 872	-	137 575	64 215
Transfers within Reserves					
- to Reserve for Field Accommodation		(2 196)	-	-	-
- to / from Operational Reserve		(6 039)	(27 791)	-	-
Refunds to Donors		(26)	-	(11 280)	(4 156)
Transfers within UNFPA Resources					
- to Other Resources		(573)	-	573	291
- from Other Resources	Note 20	1 102	261	(10 506)	(10 561)
FUND BALANCES AT 31 DECEMBER	Statement 4	**20 018**	**39 872**	**108 657**	**137 575**

* The accompanying notes form an integral part of the financial statements.

Statement 1

Income and expenditures and fund balances for the biennium ended 31 December 2003

1.2 Other resources

(Thousands of United States dollars)

		Cost-sharing		Trust Funds		Junior Professional Officers Programme		UNFPA Programme Support Services		Elimination		Total Other Resources	
		2002-2003 Schedule 7	2000-2001	2002-2003 Schedule 6	2000-2001	2002-2003	2000-2001	2002-2003	2000-2001	2002-2003	2000-2001	2002-2003	2000-2001
INCOME													
Contributions		71	24	140	242							213	266
		889	280	472	116	957	200	-	-	-	-	118	596
Interest Income				5	10							5	10
		-	-	394	955	7	-	-	-	-	-	401	955
Other Income								11	11	(11	(11		
		-	-	61	325	-	-	739	502	730)	504)	61	323
TOTAL INCOME		**71 689**	**24 280**	**145 927**	**253 396**	**964**	**200**	**11 738**	**11 502**	**(11 739)**	**(11 504)**	**218 580**	**277 874**
EXPENDITURE													
Programme Activities		58	12	163	173	1						222	186
		235	964	278	793	025	145	-	-	-	-	538	902
Technical Advisory Programme													
		34	309	-	-	-	-	-	-	-	-	34	309
Programme Support Services													
- Implementing Agencies					1							1	1
		595	216	922	181	-	-	-	-	-	-	517	397
- UNFPA	Note 11	2			10			1		(11	(11	1	
		540	514	058	965	97	22	349	941	739)	504)	305	936
Programme Expenditure		**61 465**	**14 003**	**173 258**	**185 939**	**1 122**	**167**	**1 349**	**941**	**(11 739)**	**(11 504)**	**225 384**	**189 546**
Other Expenditure				1								1	
		-	50	053	492	-	-	-	-	-	-	053	542
TOTAL EXPENDITURE		**61 465**	**14 053**	**174 311**	**186 431**	**1 122**	**167**	**1 349**	**941**	**(11 739)**	**(11 504)**	**226 447**	**190 088**
EXCESS / (SHORTFALL) OF INCOME OVER EXPENDITURE		**10 284**	**10 227**	**(28 384)**	**66 965**	**(158)**	**33**	**10 391**	**10 561**	**-**	**-**	**(7 867)**	**87 786**
Prior Period Adjustments	Note 9	49	-	(212)	-	1	-	-	-	-	-	(162)	-
NET EXCESS / (SHORTFALL) OF INCOME OVER EXPENDITURE		**10 235**	**10 227**	**(28 172)**	**66 965**	**(159)**	**33**	**10 391**	**10 561**	**-**	**-**	**(7 705)**	**87 786**
Fund Balances at 1 January		12	2	124	61							137	64
		931	413	484	675	160	127	-	-	-	-	575	215
Refunds to Donors				(11	(4							(11	(4
		(5)	-	275)	156)	-	-	-	-	-	-	280)	156)
Transfers within UNFPA Resources													
- to Regular Resources	Note 20							(9	(10			(10	(10
		(279)	-	(823)	-	-	-	404)	561)	-	-	506)	561)
- from Regular Resources		573	291	-	-	-	-	-	-	-	-	573	291
- to Other Resources		-	-	-	-	-	-	(987)	-	-	-	(987)	-
- from Other Resources		100	-	790	-	97	-	-	-	-	-	987	-
FUND BALANCES AT 31 DECEMBER		**23 566**	**12 931**	**85 004**	**124 484**	**98**	**160**	**-**	**-**	**-**	**-**	**108 667**	**137 975**

Statement 2

Assets, liabilities and fund balances as at 31 December 2003

2.1 Overview

(Thousands of United States dollars)

		Regular Resources		Other Resources	
		2003	2001	2003	2001
ASSETS					
Cash		9 285	8 281	11 501	2
Investments	Schedule 8	109 262	131 385	135 083	187 039
Total Cash and Investments		**118 547**	**139 666**	**146 584**	**187 041**
Accounts Receivable and Deferred Charges					
Contributions Receivable from Governments	Note 3	1 180	3 171	-	-
Provision for Doubtful Collection of Contributions Receivable	Note 7	(55)	-	-	-
Other	Note 15	5 148	4 725	180	814
Other Assets					
Operating Funds provided to:					
Government		6 652	16 166	1 446	2 649
UN Agencies		439	1 512	-	-
Inter-Governmental Institutions and NGOs		3 345	7 476	2 102	2 429
Advance from Reserve for Field Accommodation	Note 18	-	1 097	-	-
TOTAL ASSETS		**135 236**	**173 812**	**150 262**	**192 933**
LIABILITIES					
Contributions Received in Advance	Note 6	30	9	-	-
Unliquidated Obligations	Note 17	33 909	32 164	39 998	53 012
Accounts Payable					
Due to United Nations Development Programme		7 064	15 637	-	-
Other	Note 16	1 434	6 751	1 016	305
Other Liabilities					
Operating Funds payable to:					
Government		2 520	6 749	21	407
UN Agencies		5 662	12 512	322	-
Inter-Governmental Institutions and NGOs		1 893	3 451	248	1 634
TOTAL LIABILITIES		**52 512**	**77 273**	**41 605**	**55 358**
RESERVES AND FUND BALANCES					
Operational Reserve	Note 19	57 706	51 667	-	-
Reserve for Field Accommodation	Note 18	5 000	5 000	-	-
Programmable Fund Balances		20 018	39 872	108 657	137 575
TOTAL RESERVES AND FUND BALANCES	Statement 4	**82 724**	**96 539**	**108 657**	**137 575**
TOTAL LIABILITIES AND RESERVES AND FUND BALANCES		**135 236**	**173 812**	**150 262**	**192 933**

Statement 2

Assets, liabilities and reserves and fund balances as at 31 December 2003

2.2 Other resources

(Thousands of United States dollars)

		Cost-sharing		Trust Funds		Junior Professional Officers Programme		Total Other Resources	
		2003	2001	2003	2001	2003	2001	2003	2001
ASSETS									
Cash		95	-	11 406	2	-	-	11 501	2
Investments	Schedule 8	23 460	12 931	111 504	173 948	99	160	135 063	187 039
Total Cash and Investments		**23 555**	**12 931**	**122 910**	**173 950**	**99**	**160**	**146 564**	**187 041**
Accounts Receivable and Deferred Charges	Note 15	-	-	150	814	-	-	150	814
Other Assets									
Operating funds provided to:									
Government		-	-	1 446	2 649	-	-	1 446	2 649
UN Agencies		-	-	-	-	-	-	-	-
Inter-Governmental Institutions and NGOs		-	-	2 102	2 429	-	-	2 102	2 429
TOTAL ASSETS		**23 555**	**12 931**	**126 608**	**179 842**	**99**	**160**	**150 262**	**192 933**
LIABILITIES									
Unliquidated Obligations	Note 17	-	-	39 997	53 012	1	-	39 998	53 012
Accounts Payable	Note 16	-	-	1 016	305	-	-	1 016	305
Other Liabilities									
Operating Funds payable to:									
Government		-	-	21	407	-	-	21	407
UN Agencies		-	-	322	-	-	-	322	-
Inter-Governmental Institutions and NGOs		-	-	248	1 634	-	-	248	1 634
TOTAL LIABILITIES		**-**	**-**	**41 604**	**55 358**	**1**	**-**	**41 605**	**55 358**
RESERVES AND FUND BALANCES									
Programmable Fund Balances		23 555	12 931	85 004	124 484	98	160	108 657	137 575
TOTAL RESERVES AND FUND BALANCES		**23 555**	**12 931**	**85 004**	**124 484**	**98**	**160**	**108 657**	**137 575**
TOTAL LIABILITIES AND RESERVES AND FUND BALANCES		**23 555**	**12 931**	**126 608**	**179 842**	**99**	**160**	**150 262**	**192 933**

Statement 3
Statement of cash flows for the biennium ended 31 December 2003
3.1 Overview

(Thousands of United States dollars)

		Regular Resources		Other Resources	
		2002-2003	2000-2001	2002-2003	2000-2001
CASH FLOWS FROM OPERATING ACTIVITIES					
(Shortfall) / excess of income over expenditure	Statement 1.1	(12 121)	67 402	(7 705)	87 786
(Increase) / decrease in pledges receivable		1 332	(1 471)	-	-
Increase / (decrease) in provision for doubtful collection of contributions receivable		734	-	-	-
(Increase) / decrease in other accounts receivable		402	1 030	158	(69)
(Increase) / decrease in operating funds provided to Governments - net		5 285	4 406	817	(896)
(Increase) / decrease in operating funds payable to UN agencies - net		(5 778)	4 272	322	(2 010)
(Increase) / decrease in operating funds provided to inter-governmental institutions and NGOs - net		2 573	2 375	(1 059)	1 387
Increase / (decrease) in contributions received in advance		21	9	-	-
Increase / (decrease) in unliquidated obligations		1 745	11 530	(13 014)	31 972
Increase / (decrease) in other liabilities		(5 317)	(5 694)	711	(15)
Less: Interest income		(8 338)	(13 264)	(5 401)	(10 955)
NET CASH (USED IN) / FROM OPERATING ACTIVITIES		**(19 464)**	**70 596**	**(25 170)**	**107 200**
CASH FLOWS FROM INVESTING AND FINANCING ACTIVITIES					
Increase / (decrease) in Due to United Nations Development Programme		(8 573)	(3 235)	-	-
(Increase) / decrease in interest receivable		272	(2 992)	506	407
Add: Interest income		8 338	13 264	5 401	10 955
NET CASH FROM INVESTING AND FINANCING ACTIVITIES		**37**	**7 037**	**5 907**	**11 362**
CASH FLOWS FROM OTHER ACTIVITIES					
Increase to Operational Reserve		6 039	27 791	-	-
Refunds to donors		(26)	-	(11 280)	(4 156)
Transfers - net (to) / from other funds		(7 705)	(27 638)	(9 933)	(10 270)
NET CASH (USED IN) / FROM OTHER ACTIVITIES		**(1 692)**	**153**	**(21 213)**	**(14 426)**
NET (DECREASE) / INCREASE IN CASH AND INVESTMENTS		**(21 119)**	**77 786**	**(40 477)**	**104 136**
CASH AND INVESTMENTS AS AT 1 JANUARY		**139 666**	**61 880**	**187 041**	**82 905**
CASH AND INVESTMENTS AS AT 31 DECEMBER		**118 547**	**139 666**	**146 564**	**187 041**

Statement 3

Statement of cash flows for the biennium ended 31 December 2003

3.2 Other resources

(Thousands of United States dollars)

	Cost- sharing		Trust Funds		Junior Professional Officers Programme		UNFPA Programme Support Services		Total Other Resources	
	2002-2003	2000-2001	2002-2003	2000-2001	2002-2003	2000-2001	2002-2003	2000-2001	2002-2003	2000-2001
CASH FLOWS FROM OPERATING ACTIVITIES										
Excess / (shortfall) of income over expenditure	10 235	10 227	(28 172)	66 965	(159)	33	10 391	10 561	(7 705)	87 786
(Increase) / decrease in accounts receivable	-	-	158	(69)	-	-	-	-	158	(69)
(Increase) / decrease in operating funds provided to Governments-net	-	-	817	(896)	-	-	-	-	817	(896)
(Increase) / decrease in operating funds payable to UN agencies - net	-	-	322	(2 010)	-	-	-	-	322	(2 010)
(Increase) / decrease in operating funds provided to inter-governmental institutions and NGO - net	-	-	(1 059)	1 387	-	-	-	-	(1 059)	1 387
Increase / (decrease) in unliquidated obligations	-	-	(13 015)	31 972	1	-	-	-	(13 014)	31 972
Increase / (decrease) in other liabilities	-	-	711	(15)	-	-	-	-	711	(15)
Less: Interest income	-	-	(5 394)	(10 955)	(7)	-	-	-	(5 401)	(10 955)
NET CASH FROM / (USED IN) OPERATING ACTIVITIES	**10 235**	**10 227**	**(45 632)**	**86 379**	**(165)**	**33**	**10 391**	**10 561**	**(25 170)**	**107 200**
CASH FLOWS FROM INVESTING AND FINANCING ACTIVITIES										
(Increase) / decrease in interest receivable	-	-	506	407	-	-	-	-	506	407
Add: Interest income	-	-	5 394	10 955	7	-	-	-	5 401	10 955
NET CASH FROM INVESTING AND FINANCING ACTIVITIES	**-**	**-**	**5 900**	**11 362**	**7**	**-**	**-**	**-**	**5 907**	**11 362**
CASH FLOWS FROM OTHER ACTIVITIES										
Refunds to donors	(5)	-	(11 275)	(4 156)	-	-	-	-	(11 280)	(4 156)
Transfers - net (to) / from other funds	394	291	(33)	-	97	-	(10 391)	(10 561)	(9 933)	(10 270)
NET CASH FROM / (USED IN) OTHER ACTIVITIES	**389**	**291**	**(11 308)**	**(4 156)**	**97**	**-**	**(10 391)**	**(10 561)**	**(21 213)**	**(14 426)**
NET INCREASE / (DECREASE) IN CASH AND INVESTMENTS	**10 624**	**10 518**	**(51 040)**	**93 585**	**(61)**	**33**	**-**	**-**	**(40 477)**	**104 136**
CASH AND INVESTMENTS AS AT 1 JANUARY	**12 931**	**2 413**	**173 950**	**80 365**	**160**	**127**	**-**	**-**	**187 041**	**82 905**
CASH AND INVESTMENTS AS AT 31 DECEMBER	**23 555**	**12 931**	**122 910**	**173 950**	**99**	**160**	**-**	**-**	**146 564**	**187 041**

Statement 4

Regular resources — movements in reserves and fund balances for the biennium ended 31 December 2003

(Thousands of United States dollars)

		Programmable Fund	Procurement Services	Total Programmable Fund Balance	Operational Reserve	Reserve for Field Accommodation	2002-2003 Total Reserves and Fund Balances	2000-2001 Total Reserves and Fund Balances
Balance as at 1 January 2002		39 872	-	39 872	51 667	5 000	96 539	28 984
Net Excess / (Shortfall) of Income over Expenditures		(12 121)	-	(12 121)	-	(2 196)	(14 317)	67 402
Transfers within Reserves								
- to Reserve for Field Accommodation	Note 18	(2 196)	-	(2 196)	-	2 196	-	(108)
- from Operational Reserve	Note 19	(6 039)	-	(6 039)	6 039	-	-	-
Refunds to Donors		(26)	-	(26)	-	-	(26)	-
Transfers within Resources								
- to Other Resources		(573)	-	(573)	-	-	(573)	-
- from Other Resources		1 102	-	1 102	-	-	1 102	261
Other Movements								
- Earmarking in respect of Procurement Services	Note 21	(1 224)	1 224	-	-	-	-	-
BALANCE AS AT 31 DECEMBER 2003	Statements 1.1, 2.1	**18 794**	**1 224**	**20 018**	**57 706**	**5 000**	**82 724**	**96 539**

Schedule 1

Regular resources — status of voluntary contributions pledged at 31 December 2003[a]

(Thousands of United States dollars)

DONOR	Balance Due to UNFPA at 1 January 2002	Adjustments for Prior Biennia	Pledges for Current Biennium	Total Contributions	Movements in Deferred Income	Exchange Gains/ (Losses)	Payments Received	Balance Due to UNFPA at 31 December 2003	Pledged for Future Years
GOVERNMENT									
Afghanistan	-	-	-	-	-	-	-	-	-
Albania	-	-	-	-	-	-	-	-	-
Algeria	24	(20)	20	-	-	-	20	4	-
Andorra	-	-	20	20	-	-	20	-	-
Angola	1	(1)	2	2	(1)	-	1	-	-
Antigua and Barbuda	-	-	2	2	(2)	-	-	-	-
Armenia	-	-	1	1	-	-	1	-	-
Australia	-	-	2 521	2 521	-	61	2 582	-	-
Austria	-	-	817	817	-	(1)	816	-	-
Azerbaijan	-	-	1	1	-	-	1	-	-
Bahamas	1	(1)	3	3	-	-	3	-	-
Bahrain	-	-	5	5	-	-	5	-	-
Bangladesh	100	(75)	53	(22)	-	-	53	25	-
Barbados	-	-	8	8	-	-	8	-	-
Belgium	1 104	(13)	8 227	8 214	-	604	9 922	-	-
Benin	4	-	7	7	-	-	7	4	-
Bhutan	5	-	13	13	-	-	12	6	-
Bolivia	8	(4)	8	4	-	-	-	12	-
Botswana	-	-	15	15	-	-	15	-	-
Bulgaria	185	(184)	21	(163)	-	-	-	22	25
Burkina Faso	-	-	3	3	(3)	-	-	-	-
Burundi	1	-	2	2	-	-	-	3	-
Cambodia	-	2	4	6	(2)	-	4	-	-
Cameroon	-	-	10	10	-	-	10	-	-
Canada	-	-	17 201	17 201	-	81	17 282	-	-
Cape Verde	-	-	14	14	-	-	-	14	-
Central African Republic	1	(1)	7	5	-	-	7	-	-
Chad	-	-	-	-	-	-	-	-	-
Chile	1	(1)	10	9	-	-	10	-	-
China	-	-	1 640	1 640	-	-	1 640	-	-
Colombia	40	(40)	40	-	-	-	1	39	-
Comoros	1	(1)	1	-	-	-	-	1	-
Congo	-	-	34	34	-	14	-	48	-
Cook Islands	1	-	1	1	-	-	1	1	-
Costa Rica	-	-	6	6	-	-	6	-	-
Côte d'Ivoire	62	(8)	15	7	-	18	71	15	-
Croatia	-	-	2	2	-	-	2	-	-
Cuba	-	-	10	10	-	-	10	-	-
Cyprus	1	-	3	3	(3)	-	1	-	-
Czech Republic	-	-	165	165	-	11	176	-	-
Democratic People's Republic of Korea	-	-	27	27	-	-	27	-	-
Democratic Republic of the Congo	-	-	2	2	-	-	-	2	-

DONOR	Balance Due to UNFPA at 1 January 2002	Adjustments for Prior Biennia	Pledges for Current Biennium	Total Contributions	Movements in Deferred Income	Exchange Gains/ (Losses)	Payments Received	Balance Due to UNFPA at 31 December 2003	Pledged for Future Years
Denmark	-	-	48 068	48 068	-	-	48 068	-	-
Djibouti	3	-	2	2	-	-	4	1	-
Dominica	-	-	-	-	-	-	-	-	-
Dominican Republic	6	(5)	5	-	-	(1)	5	-	-
Egypt	164	(163)	191	28	-	(31)	89	72	158
El Salvador	-	-	2	2	-	-	2	-	-
Equatorial Guinea	2	-	187	187	-	-	189	-	-
Eritrea	-	-	3	3	-	-	3	-	1
Estonia	-	-	2	2	24	-	28	-	-
Ethiopia	4	-	7	7	-	-	7	3	-
Federated States of Micronesia	3	(3)	6	3	-	-	3	3	-
Fiji	5	(3)	5	2	-	-	7	-	-
Finland	-	-	27 191	27 191	-	986	28 176	-	34 457
France	-	-	2 556	2 556	-	4	2 560	-	-
Gabon	136	(158)	9	(149)	-	25	-	11	-
Gambia	8	(5)	5	-	-	-	7	-	-
Georgia	-	-	1	1	-	-	-	1	-
Germany	-	-	29 395	29 395	-	323	29 718	-	-
Ghana	25	-	25	25	-	-	-	50	-
Greece	-	-	12	12	-	-	12	-	6
Guatemala	2	(2)	2	1	2	-	4	-	-
Guinea	-	-	10	10	-	-	10	-	-
Guyana	-	-	-	-	-	-	-	-	-
Haiti	-	-	10	10	-	-	5	5	-
Honduras	-	-	8	8	-	-	8	-	-
Hungary	-	-	25	25	-	-	25	-	-
Iceland	-	-	23	23	-	-	23	-	-
India	-	-	377	377	-	2	380	-	-
Indonesia	-	-	54	54	-	1	55	-	-
Iran, Islamic Republic of	50	(50)	48	(2)	-	-	48	-	-
Ireland	-	-	4 290	4 290	-	27	4 317	-	-
Israel	-	-	50	50	-	-	50	-	-
Italy	-	-	5 382	5 382	-	251	5 633	-	-
Jamaica	25	(23)	-	(23)	-	-	2	-	-
Japan	-	-	79 034	79 034	-	-	79 034	-	-
Jordan	48	-	98	98	-	-	98	48	-
Kazakhstan	-	-	5	5	-	-	5	-	-
Kenya	-	-	15	15	-	-	15	-	15
Kiribati	5	-	-	-	-	2	-	7	-
Kuwait	5	(5)	30	25	-	-	10	20	-
Lao, People's Democratic Republic	3	-	2	2	-	-	4	1	-
Lebanon	6	(6)	4	(2)	-	-	2	2	-
Lesotho	-	-	2	2	-	1	-	3	-
Liberia	-	-	3	3	-	-	-	3	-
Libyan Arab Jamahiriya	10	(10)	-	(10)	-	-	-	-	-
Liechtenstein	6	-	15	15	-	1	14	8	-
Luxembourg	-	-	1 269	1 269	-	50	1 318	-	-
Madagascar	4	(1)	2	1	-	-	5	-	-
Malawi	7	(5)	6	1	-	(1)	3	3	9

DONOR	Balance Due to UNFPA at 1 January 2002	Adjustments for Prior Biennia	Pledges for Current Biennium	Total Contributions	Movements in Deferred Income	Exchange Gains/ (Losses)	Payments Received	Balance Due to UNFPA at 31 December 2003	Pledged for Future Years
Malaysia	-	-	30	30	-	-	30	-	-
Maldives	-	-	6	6	-	-	6	-	-
Mali	7	(3)	9	6	-	2	9	6	-
Malta	-	-	2	2	-	-	2	-	-
Marshall Islands	2	-	4	4	-	-	2	4	6
Mauritania	6	(6)	3	(3)	-	-	-	3	2
Mauritius	7	(4)	7	3	-	1	11	-	-
Mexico	-	-	100	100	-	-	100	-	-
Moldova	-	-	-	-	-	-	-	-	-
Mongolia	4	(4)	8	4	-	-	8	-	-
Morocco	2	(2)	206	204	-	-	206	-	10
Mozambique	2	(2)	-	(2)	-	-	-	-	-
Myanmar	5	(5)	-	(5)	-	-	-	-	-
Namibia	4	(1)	2	1	-	-	5	-	2
Nauru	-	-	1	1	-	-	-	1	-
Nepal	11	(11)	10	(1)	-	-	10	-	5
Netherlands	-	-	117 719	117 719	-	4 812	122 531	-	146 162
New Zealand	-	-	1 928	1 928	-	26	1 954	-	-
Nicaragua	-	-	10	10	-	-	10	-	-
Niger	-	-	15	15	-	-	10	5	-
Nigeria	22	(2)	40	38	-	-	-	60	-
Norway	-	-	57 554	57 554	-	533	58 087	-	-
Oman	-	-	26	26	-	-	-	26	-
Pakistan	500	-	1 025	1 025	-	-	1 525	-	-
Palau	1	(1)	4	3	-	-	4	-	-
Panama	12	-	50	50	-	-	10	52	75
Papua New Guinea	2	-	7	7	-	-	4	5	-
Peru	10	-	-	-	-	-	-	10	-
Philippines	48	(19)	59	40	-	(2)	59	27	-
Poland	28	-	-	-	-	-	-	28	-
Portugal	40	(25)	65	40	-	-	80	-	-
Qatar	-	-	30	30	-	-	30	-	-
Republic of Korea	-	-	260	260	-	-	260	-	-
Romania	5	-	20	20	-	-	-	26	-
Russian Federation	-	-	300	300	-	-	300	-	450
Rwanda	2	-	1	1	-	-	2	1	-
Saint Kitts and Nevis	-	-	1	1	-	-	1	-	-
Samoa	3	(3)	10	8	5	-	15	-	-
Sao Tome and Principe	1	-	4	4	-	-	2	2	-
Saudi Arabia	30	(30)	600	570	-	-	300	300	-
Senegal	-	-	17	17	-	1	18	-	-
Seychelles	-	-	3	3	-	-	2	1	-
Sierra Leone	-	-	18	18	-	1	10	9	-
Slovak Republic	-	-	6	6	-	-	6	-	-
Slovenia	4	-	-	-	-	-	3	1	-
Solomon Islands	-	-	-	-	-	-	-	-	-
Somalia	-	-	-	-	-	-	-	-	-
South Africa	8	-	27	27	-	1	36	-	42
Spain	-	-	1 185	1 185	-	-	1 185	-	-

DONOR		Balance Due to UNFPA at 1 January 2002	Adjustments for Prior Biennia	Pledges for Current Biennium	Total Contributions	Movements in Deferred Income	Exchange Gains/ (Losses)	Payments Received	Balance Due to UNFPA at 31 December 2003	Pledged for Future Years
Sri Lanka		-	-	36	36	-	-	36	-	-
Sudan		52	(22)	30	8	-	-	-	60	-
Suriname		-	-	1	1	-	-	1	-	-
Swaziland		-	-	10	10	-	-	-	10	-
Sweden		-	-	41 864	41 864	-	35	41 898	-	-
Switzerland		-	-	16 925	16 925	-	667	17 593	-	-
Syrian Arab Republic		-	-	6	6	-	-	3	3	-
Tajikistan		-	-	2	2	-	-	2	-	-
Thailand		-	-	192	192	-	-	192	-	-
The former Yugoslav Republic of Macedonia		-	-	2	2	-	-	-	2	-
Timor-Leste		-	-	1	1	-	-	-	1	-
Togo		-	1	6	7	-	-	4	3	-
Tokelau		-	-	-	-	-	-	-	-	-
Tonga		-	-	1	1	-	-	1	-	-
Trinidad and Tobago		-	-	10	10	-	-	10	-	-
Tunisia		18	(19)	45	26	-	1	45	-	-
Turkey		210	(182)	216	34	-	-	216	29	-
Turkmenistan		-	-	3	3	-	-	3	-	-
Tuvalu		-	-	7	7	-	-	7	-	9
Uganda		13	(2)	20	18	-	-	10	20	-
United Arab Emirates		-	(5)	10	5	-	-	5	-	-
United Kingdom		-	-	54 962	54 962	-	1 895	56 858	-	-
United Republic of Tanzania		14	(7)	12	5	-	(1)	12	5	-
Uruguay		8	-	-	-	-	-	-	8	-
Uzbekistan		-	-	1	1	-	-	-	1	-
Vanuatu		6	(5)	2	(3)	-	-	-	3	3
Venezuela		5	-	10	10	-	-	-	15	-
Viet Nam		-	-	9	9	-	-	9	1	-
Yemen		-	-	20	20	-	-	20	-	-
Zambia		9	(2)	13	10	-	-	19	-	-
Zimbabwe		11	-	11	11	-	-	22	1	-
PRIVATE										
Mars Trust	Note 4	-	-	2 025	2 025	-	-	2 025	-	-
34 Million Friends Campaign	Note 5	-	-	1 179	1 179	-	-	1 179	-	-
Other		-	-	6	6	-	-	6	-	-
Government Local Office Costs	Note 11	-	-	(184)	(184)	-	-	(184)	-	-
TOTAL		3 171	(1 146)	528 195	527 049	20	10 399	539 478	1 160	181 438

[a] Balances, adjustments, pledges for current year, payments and/or pledged for future years for less than $500 from Afghanistan, Albania, Chad, Dominica, Guyana, Myanmar, Republic of Moldova, Solomon Islands, Somalia, Tokelau and Zimbabwe round down to zero.

Schedule 2

Other income and expenditure for the biennium ended 31 December 2003

(Thousands of United States dollars)

		Regular Resources		Other Resources	
		2002-2003	2000-2001	2002-2003	2000-2001
OTHER INCOME					
Savings arising from Liquidation of Prior Period Obligations		1 330	3 274	12	-
Miscellaneous Income		2 162	1 082	49	161
Net Currency Revaluation Adjustments and Gains on Exchange		1 700	-	-	-
Donations		-	65	-	-
Accounting Adjustments in respect of Closed Projects		16	-	-	162
TOTAL OTHER INCOME		**5 208**	**4 421**	**61**	**323**
OTHER EXPENDITURE					
Hedging Programme - Premia	Note 8	35	-	-	-
Net Currency Revaluation Adjustments and Losses on Exchange		-	6 802	1 052	542
Accounting Adjustments in respect of Closed Projects		23	667	1	-
TOTAL OTHER EXPENDITURE		**58**	**7 469**	**1 053**	**542**

Schedule 3

Regular resources — programme activities by region for the biennium ended 31 December 2003

(Thousands of United States dollars)

	2002-2003 Programme Activities	2000-2001 Programme Activities
SUB-SAHARAN AFRICA		
Angola	3 799	2 731
Benin	3 465	2 282
Botswana	995	638
Burkina Faso	3 066	2 547
Burundi	2 030	1 437
Cameroon	4 490	2 846
Cape Verde	1 077	1 108
Central African Republic	1 957	1 486
Chad	4 574	1 962
Comoros	795	387
Congo	1 365	506
Côte d'Ivoire	1 799	1 923
Democratic Republic of the Congo	4 911	2 172
Equatorial Guinea	893	1 030
Eritrea	2 181	2 232
Ethiopia	6 363	5 199
Gabon	393	325
Gambia	991	780
Ghana	5 324	4 157
Guinea	1 519	1 365
Guinea-Bissau	1 044	697
Kenya	7 068	3 963
Lesotho	695	428
Liberia	1 086	1 563
Madagascar	3 520	2 964
Malawi	2 718	2 762
Mali	3 730	2 620
Mauritania	2 824	1 697
Mauritius	223	281
Mozambique	4 667	4 232
Namibia	1 508	863
Niger	4 296	2 990
Nigeria	9 046	9 230
Rwanda	2 206	1 843
Sao Tome and Principe	540	859
Senegal	3 434	3 144
Seychelles	97	111
Sierra Leone	2 416	725
South Africa	1 755	903
Swaziland	878	400
Togo	2 221	1 732
Uganda	7 692	5 178
United Republic of Tanzania	6 043	5 442
Zambia	3 689	1 761
Zimbabwe	2 127	1 567
Total country projects	**127 510**	**95 068**
Regional projects	9 210	4 587
Total	**136 720**	**99 655**

	2002-2003 Programme Activities	2000-2001 Programme Activities
ASIA AND THE PACIFIC		
Afghanistan	4 712	1 280
Bangladesh	13 934	9 882
Bhutan	1 408	2 057
Cambodia	7 385	5 545
China	9 161	7 128
Democratic People's Republic of Korea	1 648	1 076
India	19 865	20 007
Indonesia	5 896	4 948
Iran, Islamic Republic of	4 531	3 267
Lao People's Democratic Republic	3 009	3 304
Malaysia	371	296
Maldives	782	1 175
Mongolia	2 883	3 253
Myanmar	2 933	2 255
Nepal	3 540	5 784
Pacific Multi Islands*	1 589	2 664
Pakistan	8 723	5 331
Papua New Guinea	1 110	1 119
Philippines	5 922	3 553
Sri Lanka	1 982	1 730
Thailand	930	1 277
Timor-Leste	2 625	607
Viet Nam	7 345	6 800
Total country projects	**112 284**	**94 338**
Regional projects	4 852	3 040
Total	**117 136**	**97 378**

* Figures for Pacific Multi Islands are comprised of several islands which, for reporting purposes, have been classified under one heading. Pacific Multi Islands include the Cook and Fiji Islands, Kiribati, Marshall Island, Federated States of Micronesia, Nauru, Niue, Palau, Samoa, Solomon Islands, Tokelau, Tonga, Tuvalu and Vanuatu.

	2002-2003 Programme Activities	2000-2001 Programme Activities
ARAB STATES AND EUROPE		
Albania	704	670
Algeria	2 034	1 584
Armenia	677	359
Azerbaijan	1 103	1 285
Bahrain	-	10
Belarus	313	206
Bosnia and Herzegovina	404	189
Bulgaria	346	207
Commonwealth of Independent States	-27	-6
Djibouti	854	816
Egypt	2 551	4 389
Estonia	65	75
Georgia	667	377
Iraq	767	581
Jordan	784	908
Kazakhstan	1 123	1 461
Kosovo	536	154
Kyrgyzstan	1 064	889
Latvia	137	144
Lebanon	561	310
Lithuania	164	114
Morocco	2 757	1 911
Occupied Palestine Territories	1 669	2 172
Oman	-	17
Poland	156	222
Republic of Moldova	358	262
Romania	887	763
Russian Federation	988	485
Saudi Arabia	13	4
Somalia	732	486
Sudan	3 750	4 028
Syrian Arab Republic	4 735	2 651
Tajikistan	1 456	1 000
The former Yugoslav Republic of Macedonia	-	(11)
Tunisia	709	892
Turkey	1 744	897
Turkmenistan	1 115	991
Ukraine	742	436
United Arab Emirates	4	8
Uzbekistan	1 176	1 272
Yemen	4 079	4 616
Total country projects	**41 899**	**37 824**
Regional projects	4 929	2 230
Total	**46 828**	**40 054**

	2002-2003 Programme Activities	2000-2001 Programme Activities
LATIN AMERICA AND THE CARIBBEAN		
Argentina	489	6
Bolivia	2 722	2 389
Brazil	921	1 827
Caribbean, English and Dutch Speaking*	1 470	2 092
Chile	264	123
Colombia	1 188	1 043
Costa Rica	600	397
Cuba	1 221	836
Dominican Republic	1 417	1 486
Ecuador	2 012	1 487
El Salvador	1 231	1 140
Guatemala	1 172	725
Haiti	2 789	2 835
Honduras	2 680	1 494
Mexico	2 727	2 643
Nicaragua	1 868	2 769
Panama	906	612
Paraguay	1 169	1 129
Peru	2 747	2 662
Uruguay	278	241
Venezuela	1 387	962
Total country projects	**31 258**	**28 898**
Regional Projects	3 988	2 672
Total	**35 246**	**31 570**
Inter-Regional Projects	44 053	30 516
TOTAL PROGRAMME ACTIVITIES	**379 983**	**299 173**

* Figures for English and Dutch Speaking Caribbean are comprised of several countries and islands which, for reporting purposes, have been classified under one heading, respectively. The English and Dutch Speaking Caribbean includes Anguilla, Antigua and Barbuda, the Bahamas, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Christopher and Nevis, St. Lucia, St. Vincent and the Grenadines, the Netherlands Antilles, Suriname, Trinidad and Tobago, Turks and Caicos Islands.

Schedule 4

Regular resources — programme activities by implementing agency for the biennium ended 31 December 2003

(Thousands of United States dollars)

	2002-2003 Allocations	2002-2003 Programme Activities	Unspent Allocations
IMPLEMENTING AGENCIES			
UNFPA	287 950	185 814	102 136
Governments	170 430	125 300	45 130
Intergovernmental institutions and non-governmental organizations	66 804	55 126	11 678
United Nations agencies	19 315	13 743	5 572
TOTAL PROGRAMME ACTIVITIES	**544 499**	**379 983**	**164 516**

Schedule 5

Biennial support budget for the biennium ended 31 December 2003

(Thousands of United States dollars)

		Appropriations 2002-2003	EXPENDITURE 2002-2003			Unencumbered Balance
			Disbursements	Unliquidated Obligations	Total	
Programme Support						
Country Offices		76 027	70 344	1 228	71 572	4 455
Headquarters		31 572	30 168	1 225	31 393	179
Programme Support - Subtotal		**107 599**	**100 512**	**2 453**	**102 965**	**4 634**
Management and Administration		47 597	45 412	2 132	47 544	53
Gross Appropriations and Expenditure		**155 196**	**145 924**	**4 585**	**150 509**	**4 687**
Credits to the Biennial Support Budget	Note 11	(20 070)	(17 682)	-	(17 682)	(2 388)
Net Appropriations and Expenditure		**135 126**	**128 242**	**4 585**	**132 827**	**2 299**

Schedule 6

Trust funds — statement of account for the biennium ended 31 December 2003

(Thousands of United States dollars)

TRUST FUNDS	Fund Balances 1 January 2002	Contributions	Prior Period Adjustments, Transfers, and Refunds	Interest Income, Other Income and Expenditure	Total Funds Available	Programme Activities	Programme Support Services - Implementing Agencies	Programme Support Services - UNFPA	Total Programme Expenditure	Fund Balances 31 December 2003
CO-FINANCING										
Arab Gulf Programme for United Nations Organizations	325	51	(60)	11	329	233	-	3	236	93
Australia	852	-	(16)	24	859	656	17	1	673	186
Austria	33	646	-	14	692	143	14	27	184	508
Balkan Trust Fund	(8)	-	-	-	(8)	(8)	-	-	(8)	-
Belgium	2 253	5 683	(1 023)	148	7 061	2 902	63	414	3 379	3 682
Canada	1 317	7 380	54	206	8 957	5 221	-	371	5 592	3 365
Canadian Public Health	191	990	-	2	1 183	1 016	-	44	1 059	124
CIDA / Kosovo	640	828	(394)	25	1 101	1 028	-	46	1 074	27
Columbia University	1 981	3 222	-	81	5 283	3 690	-	322	4 012	1 271
Contraceptive Needs in Selected Developing Countries	49	-	(52)	2	-	-	-	-	-	-
Denmark	395	1 046	(48)	23	1 418	889	19	89	997	421
Egypt	912	88	-	13	1 012	416	9	20	445	567
European Commission	4 108	14 945	(802)	270	18 520	9 628	301	562	10 492	8 028
European Commission - Reproductive Health Initiative	-	6 544	-	82	6 626	1 524	-	-	1 524	5 102
Finland	905	3 438	(81)	67	4 329	1 765	14	291	2 070	2 259
Ford Foundation	18	-	(26)	1	(6)	(6)	-	-	(6)	-
France	247	703	-	27	978	744	-	84	828	150
Germany	30	2 041	(28)	22	2 064	396	-	131	528	1 536
Germany / Kosovo	(86)	-	-	4	(83)	(86)	(19)	5	(100)	17
Germany / Kosovo 2	389	943	-	12	1 343	707	58	68	832	511
International Bank for Reconstruction and Development	604	1 073	(170)	60	1 567	928	-	58	986	581
International Planned Parenthood Federation/Arab Gulf Programme	39	-	(39)	1	1	1	-	-	1	-
Italy	2 750	348	(305)	80	2 872	2 364	116	25	2 505	367
Japan	32	-	(33)	1	-	-	-	-	-	-
Japanese Trust Fund for Inter-Country NGO and Parliamentary Activities	1 592	2 000	33	89	3 712	1 961	16	101	2 078	1 634
Japanese Organization for International Cooperation in Family Planning	(3)	111	-	2	110	61	-	6	67	43
Lebanon	(37)	1 423	(410)	18	995	639	1	1	641	354
Luxembourg	5 477	2 545	(225)	157	7 953	6 980	26	546	7 553	400
Macro International	29	-	(29)	1	-	-	-	-	-	-
Netherlands	12 098	2 675	(427)	334	14 682	9 645	157	(59)	9 743	4 939
Netherlands Trust Fund for Reproductive Health	18 645	-	(1 392)	(159)	17 094	17 094	-	-	17 094	-
New Zealand	-	752	-	11	762	295	8	44	347	415
NORAD	3 860	4 012	(853)	138	7 156	3 567	-	410	3 977	3 179
NORAD / Malawi	335	1 380	-	(19)	1 696	1 003	12	129	1 143	553
Norway	250	1 004	268	26	1 547	934	-	120	1 054	493
Northern Caucasus Trust Fund	18	-	(18)	-	-	-	-	-	-	-

TRUST FUNDS	Fund Balances 1 January 2002	Contributions	Prior Period Adjustments, Transfers, and Refunds	Interest Income, Other Income and Expenditure	Total Funds Available	Programme Activities	Programme Support Services - Implementing Agencies	Programme Support Services - UNFPA	Total Programme Expenditure	Fund Balances 31 December 2003
CO-FINANCING *(continued)*										
Oman	203	170	(173)	9	209	55	-	12	66	143
Open Society	-	50	-	1	51	44	-	6	50	1
Organization of Petroleum Exporting Countries	(48)	1 464	-	28	1 445	395	-	76	471	974
Packard Foundation	17	-	-	1	18	-	-	18	18	-
Partners in Population	667	60	(606)	13	135	91	-	-	91	44
Rockefeller Foundation	40	500	(46)	6	500	475	-	25	500	-
Saudi Arabia	-	200	-	8	208	-	-	10	10	198
SHELL	99	10	-	2	110	98	-	11	109	1
Spain	837	-	-	18	855	600	-	23	623	232
Sweden	1 033	3 215	(323)	73	3 997	823	-	163	987	3 010
Switzerland	371	839	(182)	4	1 032	810	-	90	900	132
Syrian Arab Republic	267	692	(390)	44	613	175	-	24	199	414
UK Trust Fund for Reproductive Health	5 552	-	-	678	6 231	3 000	-	-	3 000	3 231
United Nations Fund for International Partnerships	12 788	17 617	(888)	536	30 052	22 811	-	890	23 701	6 351
University of Montreal	1	-	(1)	-	-	-	-	-	-	-
United Kingdom	7 578	11 874	29	(290)	19 191	8 697	51	778	9 526	9 665
United Nations AIDS	103	154	-	5	263	136	13	7	156	107
United Nations Trust Fund for Human Security	1 800	4 010	-	107	5 918	1 832	48	105	1 985	3 933
US Committee for UNFPA Trust Fund	1 102	12 165	(38)	128	13 358	10 670	-	1 267	11 936	1 422
USAID	(21)	-	(4)	1	(24)	(23)	-	(1)	(24)	-
CO-FINANCING	92 637	118 891	(8 711)	3 145	205 967	127 019	922	7 356	135 300	70 664
OTHER TRUST FUNDS										
Female Genital Mutilation	41	(36)	-	1	5	-	-	-	-	5
Fistula	-	322	-	2	323	-	-	-	-	323
Global Contraceptive Commodity Program	4 808	-	-	189	4 997	932	-	-	932	4 065
International Conference on Population and Development	144	-	(148)	4	-	-	-	-	-	-
International Conference on Population and Development +5	850	(339)	(165)	16	342	342	-	-	342	-
Office of Results-based Management (ORM)	273	-	-	12	284	40	-	-	40	244
Rafael M. Salas Endowment Fund	905	3	-	98	1 007	49	-	-	49	958
UN Foundation Support Office Note 11	522	8	890	21	1 440	892	-	-	892	548
UN Population Award	743	-	-	35	778	42	-	-	42	736
OTHER TRUST FUNDS	8 287	(44)	555	378	9 176	2 298	-	-	2 297	6 879
PROCUREMENT SERVICES										
Algeria	144	-	-	5	149	-	-	-	-	149
Canada	98	-	(151)	10	(44)	(268)	-	(14)	(281)	237
European Commission	42	-	-	2	43	-	-	-	-	43
Germany	284	-	(54)	12	242	25	-	1	27	215
International Bank for Reconstruction and Development	20 840	1 691	(2 909)	817	20 436	17 916	-	896	18 813	1 625

TRUST FUNDS		Fund Balances 1 January 2002	Contributions	Prior Period Adjustments, Transfers, and Refunds	Interest Income, Other Income and Expenditure	Total Funds Available	Programme Activities	Programme Support Services - Implementing Agencies	Programme Support Services - UNFPA	Total Programme Expenditure	Fund Balances 31 December 2003
Jamaica		35	391	-	3	428	309	-	15	324	104
Lao People's Democratic Republic		5	-	-	0	5	-	-	-	-	5
Palestan		-	2 555	-	12	2 567	-	-	-	-	2 567
Population Services International		5	915	161	12	1 094	496	-	25	521	573
Sri Lanka		634	592	-	30	1 256	567	-	28	596	660
United Kingdom		1 401	-	(23)	68	1 446	55	-	6	61	1 385
Uruguay		-	391	-	1	392	367	-	18	385	7
UN Agencies		70	-	-	(14)	56	-	-	-	-	56
Other		-	15 091	54	(92)	15 052	14 493	-	725	15 217	(165)
PROCUREMENT SERVICES	Note 11	23 559	21 625	(2 926)	865	43 122	33 961	-	1 702	35 663	7 461
TOTAL	Statement 1.2	124 484	140 472	(11 082)	4 388	258 262	163 278	922	9 058	173 258	85 004

Schedule 7

Cost-sharing — income and expenditures and fund balances for the biennium ended 31 December 2003

(Thousands of United States dollars)

	Fund Balances 1 January 2002	Contributions Received (including Reserves, Movements, Refunds to Donors)	Total Funds Available	Programme Activities	Programme Support Services - Executing Agencies	Programme Support Services - UNFPA	Fund Balances 31 December 2003
SUB-SAHARAN AFRICA							
Angola	206	10	216	-	-	-	216
Benin	424	997	1 421	1 291	-	65	65
Burundi	197	-	197	188	-	10	(1)
Cameroon	210	-	210	200	-	10	-
Central African Republic	64	-	64	52	-	3	9
Côte d'Ivoire	-	50	50	48	-	3	(1)
Eritrea	831	251	1 082	318	-	16	748
Ethiopia	179	-	179	67	-	10	102
Gabon	62	-	62	59	-	3	-
Gambia	-	30	30	29	-	2	(1)
Ghana	150	-	150	143	-	7	-
Lesotho	-	13	13	-	-	-	13
Madagascar	25	-	25	22	3	-	-
Malawi	-	165	165	73	-	3	89
Mozambique	903	9 782	10 685	8 686	260	223	1 516
Namibia	62	-	62	-	-	-	62
Nigeria	-	50	50	-	-	-	50
Rwanda	119	273	392	32	7	-	353
South Africa	-	65	65	-	-	-	65
Sierra Leone	-	20	20	20	-	-	-
Swaziland	-	36	36	-	-	-	36
Togo	30	-	30	14	-	1	15
Uganda	-	90	90	-	-	-	90
Zambia	144	14	158	137	-	7	14
Total Country Projects	**3 606**	**11 846**	**15 452**	**11 379**	**270**	**363**	**3 440**
Regional Projects	50	1 454	1 504	396	42	2	1 064
TOTAL	**3 656**	**13 300**	**16 956**	**11 775**	**312**	**365**	**4 504**

	Fund Balances 1 January 2002	Contributions Received (including Reserves, Movements, Refunds to Donors)	Total Funds Available	Programme Activities	Programme Support Services - Executing Agencies	Programme Support Services - UNFPA	Fund Balances 31 December 2003
ASIA AND THE PACIFIC							
Afghanistan	9	272	281	260	-	13	8
Bangladesh	-	2 004	2 004	1 392	-	70	542
China	-	230	230	170	-	8	52
Fiji	165	(165)	-	-	-	-	-
India	129	753	882	171	-	9	702
Indonesia	-	79	79	70	-	2	7
Mongolia	-	31	31	25	-	1	5
Pakistan	-	190	190	37	4	-	149
Papua New Guinea	111	-	111	74	7	-	30
Philippines	-	1 007	1 007	423	-	21	563
Sri Lanka	7	-	7	-	-	-	7
Timor-Leste	-	105	105	36	-	2	67
Viet Nam	11	1 144	1 155	557	-	28	570
Total Country Projects	**432**	**5 650**	**6 082**	**3 215**	**11**	**154**	**2 702**
Regional Projects	-	1 413	1 413	347	1	4	1 061
TOTAL	**432**	**7 063**	**7 495**	**3 562**	**12**	**158**	**3 763**

	Fund Balances 1 January 2002	Contributions Received (including Reserves, Movements, Refunds to Donors)	Total Funds Available	Programme Activities	Programme Support Services - Executing Agencies	Programme Support Services - UNFPA	Fund Balances 31 December 2003
ARAB STATES AND EUROPE							
Armenia	8	-	8	-	-	-	8
Belarus	20	41	61	44	-	3	14
Egypt	(35)	-	(35)	(33)	-	(2)	-
Lebanon	514	(876)	(362)	(334)	(19)	(9)	-
Morocco	(24)	427	403	185	-	18	200
Palestine	-	200	200	192	-	-	8
Russian Federation	125	-	125	44	-	2	79
Sudan	506	50	556	-	-	-	556
Turkey	100	-	100	-	-	-	100
Ukraine	15	305	320	218	-	11	91
Yemen	-	249	249	180	-	9	60
Total Country Projects	**1 229**	**396**	**1 625**	**496**	**(19)**	**32**	**1 116**
Regional Projects	-	1 265	1 265	845	36	27	357
TOTAL	**1 229**	**1 661**	**2 890**	**1 341**	**17**	**59**	**1 473**

	Fund Balances 1 January 2002	Contributions Received (Including Reserves, Movements, Refunds to Donors)	Total Funds Available	Programme Activities	Programme Support Services - Executing Agencies	Programme Support Services - UNFPA	Fund Balances 31 December 2003
LATIN AMERICA AND THE CARIBBEAN							
Bolivia	89	76	165	141	-	8	16
Brazil	529	575	1 104	583	-	27	494
Colombia	-	948	948	151	-	8	789
Cuba	7	-	7	7	-	-	-
Dominican Republic	-	204	204	104	-	7	93
Guatemala	264	25 261	25 525	22 421	-	1 121	1 983
Haiti	-	187	187	63	-	3	121
Mexico	13	3 857	3 870	3 026	-	151	693
Nicaragua	190	2 909	3 099	997	-	50	2 052
Paraguay	(5)	150	145	116	-	5	24
Peru	2 492	5 996	8 488	5 201	-	260	3 027
Suriname	249	-	249	237	-	12	-
Total Country Projects	**3 828**	**40 163**	**43 991**	**33 047**	**-**	**1 652**	**9 292**
Regional Projects	-	458	458	289	5	11	153
TOTAL	**3 828**	**40 621**	**44 449**	**33 336**	**5**	**1 663**	**9 445**
Interregional Projects	3 747	9 383	13 130	8 221	249	293	4 367
Technical Advisory Programme	39	-	39	34	-	2	3
TOTAL	**12 931**	**72 028**	**84 959**	**58 269**	**595**	**2 540**	**23 555**

Schedule 8

Investments as at 31 December 2003

(Thousands of United States dollars)

		Regular Resources		Other Resources	
		2003	2001	2003	2001
By Security Type:					
Money Market Funds		11 761	-	14 734	17 994
Time Deposits		40 419	39 755	49 581	167 246
Marketable Securities		57 082	91 630	70 748	1 799
TOTAL	Note 14	**109 262**	**131 385**	**135 063**	**187 039**
By Fund / Reserve:					
Operational Reserve		57 706	51 667	-	-
Reserve for Field Accomodation		5 000	5 000	-	-
Regular Resources		46 556	74 718	-	-
Other Resources		-	-	135 063	187 039
TOTAL	Note 14	**109 262**	**131 385**	**135 063**	**187 039**

Notes to the financial statements

Note 1
Mission statement

The United Nations Population Fund (UNFPA) extends assistance to developing countries, countries with economies in transition and other countries at their request to help them address reproductive health and population issues and raises awareness of these issues in all countries, as it has since its inception.

The organization's three main areas of work are: to help ensure universal access to reproductive health, including family planning and sexual health, to all couples and individuals on or before 2015; to support population and development strategies that enable capacity-building in population programming; to promote awareness of population and development issues and to advocate for the mobilization of the resources and political will necessary to accomplish its areas of work.

UNFPA is guided by, and promotes, the principles of the Programme of Action of the International Conference on Population and Development (1994). In particular, UNFPA affirms its commitment to reproductive rights, gender equality and male responsibility, and to the autonomy and empowerment of women everywhere. UNFPA believes that safeguarding and promoting these rights, and promoting the well-being of children, especially girl children, are development goals in themselves. All couples and individuals have the right to decide freely and responsibly the number and spacing of their children as well as the right to the information and means to do so.

UNFPA is convinced that meeting these goals will contribute to improving the quality of life and to the universally accepted aim of stabilizing world population. UNFPA also believes that these goals are an integral part of all efforts to achieve sustained and sustainable social and economic development that meets human needs, ensures well-being and protects the natural resources on which all life depends.

UNFPA recognizes that all human rights, including the right to development, are universal, indivisible, interdependent and interrelated, as expressed in the Programme of Action of the International Conference on Population and Development, the Vienna Declaration and the Programme of Action adopted by the World Conference on Human Rights, the Convention on Elimination of All Forms of Discrimination against Women, the Programme of Action of the World Summit for Social Development, the Platform for Action of the Fourth World Conference on Women and in other internationally agreed instruments.

UNFPA, as the lead United Nations organization for the follow-up and implementation of the Programme of Action of the International Conference on Population and Development, is fully committed to working in partnership with governments, all parts of the United Nations system, development banks, bilateral aid agencies, non-governmental organizations and civil society. UNFPA strongly supports the United Nations resident coordinator system and the implementation of all relevant United Nations decisions.

UNFPA will assist in the mobilization of resources from both developed and developing countries, following the commitments made by all countries in the

Programme of Action to ensure that the goals of the International Conference on Population and Development are met.

Note 2
Summary of significant accounting policies

The financial statements reflect the application of the following significant accounting policies:

(a) **Accounting convention**

These financial statements have been prepared in accordance with the Financial Regulations and Rules of UNFPA and the United Nations system accounting standards.

(b) **Financial period**

The period covered by these financial statements is a biennium.

(c) **Unit of account**

The unit of account used in these financial statements is the United States dollar. Where transactions have occurred in other currencies, the equivalent in United States dollars is established using the United Nations operational rate of exchange.

The amounts in the statements and schedules are rounded to the nearest thousand and in the notes to the nearest million or thousand as indicated.

(d) **Income**

All income is recorded on an accrual basis except for contributions to other resources, which are recorded on a cash basis.

(e) **Expenditure**

All expenditure, except for that recorded under programme activities executed by Governments and by non-governmental organizations (NGOs), is accounted for on an accrual basis and includes unliquidated obligations in respect of goods and services budgeted and contracted for by 31 December 2003. Expenditure recorded under programme activities executed by Governments and NGOs is accounted for on a disbursement basis.

(f) **Exchange rates**

Contribution income is recorded net of the exchange gains and losses resulting from the pledge and receipt of voluntary contributions. Monetary assets and liabilities held in currencies other than United States dollars are revalued using the United Nations operational rate of exchange in effect at 1 January 2004.

Revaluation adjustments and exchange gains and losses arising from transactions other than contributions are recorded as other income or other expenditure.

(g) **Investments**

Investments are accounted for at cost. Marketable securities are purchased with the intent to hold them to maturity. However, marketable securities may be sold in cases where there is a liquidity need or unexpected credit risk or

where it is otherwise in the best interests of overall investment management and providing such sale shall not result in a loss of principal.

Marketable securities that potentially subject any organization to concentrations of credit risk consist primarily of bonds and certificates of deposit. Investments are placed in high credit quality financial instruments as determined through reputable third party rating agencies. The credit quality of issuers of these investments is reviewed on an ongoing basis.

In addition to only placing investments in high credit quality financial instruments as determined through reputable third party rating agencies, liquidity risk is managed by limiting the exposure to any one issue and to any one counter party.

Hedging arrangements are entered into to protect the value of non-dollar pledges made by donors, to make contribution income more predictable and stable and to facilitate resource distribution and other planning exercises. Hedge premiums and hedging exchange gains and losses are included under miscellaneous expenditures. Investment activities are carried out on behalf of UNFPA by UNDP.

(h) **Non-expendable equipment**

Non-expendable equipment is defined as items of equipment valued at $1,500 or more per unit and with a serviceable life of at least five years or items of equipment that are considered attractive.

The full cost of non-expendable equipment is charged to the biennial support budget or to programme expenditure in the year in which it is purchased.

An inventory is maintained in respect of all non-expendable equipment.

Note 25 provides an analysis of inventory held as at 31 December 2003.

(i) **Technical Advisory Programme**

Expenditure recorded under the Technical Advisory Programme covers costs incurred in the provision of technical support to countries through the nine Country Technical Services Teams and the Strategic Partnership Programme with the United Nations agencies.

The Country Technical Services Teams represent multidisciplinary subregional and regional teams responsible for providing technical assistance to countries on population and reproductive health while promoting national self-reliance. Expenditure includes the costs of 78 technical support professionals, local office and activity costs.

The Strategic Partnership Programme is a collaborative arrangement between UNFPA and the United Nations agencies based on identification of specific thematic areas for cooperation, with agreed products that draw upon the comparative advantages of the United Nations agencies and that are needed to improve the effectiveness and efficiency of national population and reproductive health programmes.

(j) **Programme support services**

Programme support services — implementing agencies represents the support cost expenditures incurred by and paid to United Nations agencies, intergovernmental institutions and NGOs in relation to the implementation of UNFPA-funded projects.

Programme support services — UNFPA represents:

- The support costs charged by UNFPA in relation to projects implemented by Governments and procurement assistance to projects implemented by UNFPA;
- The support costs charged by UNFPA in relation to the management of projects financed by co-financing and procurement services trust funds.

(k) **Procurement services**

Following approval by the Governing Council at its fortieth session in 1993, UNFPA receives funds for the procurement of supplies, equipment and services on behalf and at the request of Governments, the United Nations, United Nations funds and programmes and the Specialized agencies, other intergovernmental institutions and NGOs. UNFPA receives a fee in respect of these procurement services at a rate established by the Executive Director. This procurement service fee is recorded as income to the biennial support budget after deducting procurement service expenditures.

These services have been accounted for as trust funds and are shown under procurement services in schedule 6. Statement 4 and notes 10 and 19 provide further disclosure on the excess of income over expenditure.

(l) **Presentation of financial statements**

By its decision 97/6, the Executive Board approved the harmonization of the budget presentation format submitted by UNDP, UNICEF and UNFPA. These financial statements are presented in a format consistent with that decision.

UNFPA operations are funded by two distinct types of resources:

- Regular resources represent resources that are unrestricted to use
- Other resources represent resources that are restricted to use and include cost-sharing, other co-financing, and procurement services funds. The Junior Professional Officers Programme is also reported under other resources.

The results of the operations funded by regular resources and other resources have not been combined in the financial statements.

Changes have been made to the presentation of the financial statements to facilitate their interpretation and to more accurately reflect UNFPA operations. The more significant changes are to the classifications within other resources and the disclosure on income to the biennial support budget. Where appropriate, information provided in previous years has been re-grouped for presentation in the revised format.

Totals may not add due to rounding.

Note 3
Contributions receivable from Governments

Contributions to regular resources pledged by Governments for current and prior years that had not been paid by 31 December were as follows (in thousands of United States dollars):

Pledge year		*2003*	*2001*
1999 and prior years		-	783
2000	Note 7	55	669
2001		162	1 719
2002		252	-
2003		691	-
Total	**Statement 2.1**	**1 160**	**3 171**

At 31 March 2004, $0.4 million of the above receivable relating to pledges for 2003 has been paid.

Note 4
Mars Trust

The late Mr. Forrest E. Mars provided in his estate for the creation of a fund, entitled the Mars Trust, for the principal benefit of UNFPA. On a periodic basis, the trustee of the fund reviews its financial situation and may make a discretionary distribution for the benefit of UNFPA through the United States Committee for UNFPA. Such distributions are free of donor restrictions and are therefore recorded as a contribution to regular resources.

The contribution to UNFPA in the biennium ended 31 December 2003 totalled $2 million (2000-2001: $3.3 million).

Note 5
34 Million Friends Campaign

The 34 Million Friends Campaign is a grass-roots movement that was independently initiated by two women. Following the withdrawal of funding by a major donor, each woman started her own e-mail campaign, encouraging donations of $1 or more from private individuals to help bridge the funding gap. The goal is to find 34 million friends to help UNFPA continue its invaluable work as the largest multilateral provider of family planning and reproductive health care.

The campaign raised contributions of $1.2 million (2000-2001: nil) in the biennium ended 31 December 2003.

Note 6
Contributions received in advance

At 31 December, contributions had been received in advance from the following Governments (in thousands of United States dollars):

		2003	*2001*
Angola		-	1
Antigua and Barbuda		-	2
Burkina Faso		-	1
Cambodia		-	2
Cyprus		-	3
Estonia		23	-
Guatemala		2	-
Samoa		5	-
Total	**Statement 2.1**	**30**	**9**

Note 7
Provision for doubtful collection of contributions receivable

Based on a review of the aged analysis of contributions receivable at 31 December 2003, provision has been made in respect of all those contributions for which collection is considered doubtful.

The movement in the provision is summarized below (in thousands of United States dollars):

	2002-2003	*2000-2001*
Provision at 1 January	-	-
Contributions receivable for which collection is now considered doubtful	734	-
Contributions receivable written off	(674)	-
Recoveries of contributions receivable for which collection was previously considered doubtful	(5)	-
Provision at 31 December	**55**	-

Note 8
Hedging

With effect from 1 January 2003, UNFPA requested the UNDP Treasury to hedge the currency risk to which UNFPA is exposed when donors pledge and pay contributions at different times and in currencies other than the United States dollar.

During the year, contribution income in three currencies was hedged. At 31 December 2003, there were no outstanding hedge commitments.

Note 9
Prior period adjustments

Prior period adjustments comprise (in thousands of United States dollars):

	Regular resources		*Other resources*	
	2002-2003	*2000-2001*	*2002-2003*	*2000-2001*
Adjustments in respect of:				
Salary costs	(791)	-	-	-
Contribution income	(443)	-	(185)	-
Expenditures	1 312	-	-	-
Other items	(61)	-	-	-
Cumulative rounding differences	-	-	23	-
Total	**17**	**-**	**(162)**	**-**

Note 10
Multi-year funding framework

The multi-year funding framework is the UNFPA medium-term strategic plan that aims to strengthen the Fund's contribution to the implementation of the International Conference on Population and Development. The Framework comprises a strategic results framework and an integrated resources framework. The strategic results framework specifies clearly defined organizational results and indicators to monitor progress towards these results, and strategies to achieve them. The integrated resources framework estimates the resource requirements for the Framework period.

The Fund has adopted a realistic approach in estimating the required resources for the 2004-2007 multi-year funding framework period in order to ensure minimal interruptions to programme delivery. At the first regular session of 2004, the Executive Board approved the integrated resources framework for the 2004-2007 multi-year funding framework period, with a total goal of regular and other resources of $1,523 million. However, as per the Financial Regulations and Rules, future expenditures will always be subject to the availability of resources.

Note 11
Biennial support budget

Credits to biennial support budget expenditure in schedule 5 comprise (in thousands of United States dollars):

		2002-2003	*2000-2001*
Support costs charged to regular resources in relation to			
Government-implemented projects		4 365	5 358
Procurement assistance provided to UNFPA-implemented projects		2 869	1 416
Subtotal	**Statement 1.1**	**7 234**	**6 774**
Support costs charged to other resources in relation to			
UNFPA, NGO and Government-implemented projects			
Cost-sharing	Statement 1.2	2 540	514
Trust funds	Statement 1.2	9 058	10 965
Subtotal		**11 598**	**11 479**
Less: procurement service fee income	Schedule 6	(1 702)	(1 556)
Less: transfer to United Nations Foundation support office		(890)	-
Subtotal		**9 006**	**9 923**
Expenditures charged to project activities		32	-
Net procurement service fee	Statement 4, note 21	1 224	615
Government local office contributions	Schedule 1	184	-
Reimbursement of income tax charges		-	3 975
Junior Professional Officer Programme		-	22
Rounding		2	1
Total		**17 682**	**21 310**

Support costs charged to projects funded by the United Nations Fund for International Partnerships (UNFIP) provide financing for the United Nations Foundation support office. In the biennium ended 31 December 2003, contributions of $17.6 million (2001: $21 million) were received from UNFIP.

The net procurement service fee is calculated below (in thousands of United States dollars):

		2002-2003	*2000-2001*
Procurement service fees		2 574	1 556
Procurement service expenditures	Statement 1.2	(1 349)	(941)
Total		**1 225**	**615**

One contribution towards local office costs was received in 2003. In accordance with the Executive Board decision on the harmonization of the budget presentation format submitted by UNDP, UNICEF, and UNFPA, this income has been transferred from regular resource contributions to the biennial support budget.

Credits to the biennial support budget arising from the reimbursement of income tax charges incurred by UNFPA staff members were not forthcoming in the biennium ended 31 December 2003. This was due to the withdrawal of funding to UNFPA by the Government of the country in which these staff members reside.

In previous bienniums, the Division of Human Resources managed the Junior Professional Officer Programme with funding from the biennial support budget. With effect from 1 January 2002, programme management costs were budgeted and accounted for and support cost income from the Junior Professional Officer Programme was retained and identified separately within other resources.

Note 12
Implementation of the Enterprise Resource Planning System

In the revised biennial support budget 2002-2003, approved at its second regular session of 2002, the Executive Board authorized the setting aside of $10 million for the implementation of the Enterprise Resource Planning System.

Expenditures of $7.3 million were incurred in the biennium ended 31 December 2003 (2001: nil).

Note 13
Termination payments

In the revised biennial support budget 2002-2003, approved at its second regular session of 2002, the Executive Board authorized the setting aside of $2 million to provide termination payments to the incumbents of posts not included in the Country Office typology developed under the auspices of the UNFPA transition process.

Expenditures of $1.8 million were incurred in the biennium ended 31 December 2003 (2001: nil).

Costs relating to separation packages offered to staff retiring from UNFPA are included under net biennial support budget expenditure.

Note 14
Investments

The total book and market value of investments held at 31 December 2003 is as follows (in thousands of United States dollars):

	Par value	*Book value*	*Market value*
Money market funds	26 495	26 495	26 495
Time deposits	90 000	90 000	90 000
Bonds			
– Obligations of commercial banks	69 000	71 155	71 318
– Non-United States sovereign obligations	22 715	23 928	24 142
– Supranational organizations	21 550	22 305	22 329
– United States Government and agency obligations	10 000	10 442	10 372
Subtotal	**123 265**	**127 830**	**128 162**
Total	**239 760**	**244 325**	**244 657**
Held under:			
Regular resources		109 262	
Other resources		135 063	
Total		**244 325**	

Note 15
Accounts receivable and deferred charges — other

Other accounts receivable and deferred charges in statement 2.1 consist of the following (in thousands of United States dollars):

	Regular resources		*Other resources*	
	2003	*2001*	*2003*	*2001*
Advances to staff and consultants	1 378	1 286	93	251
Deferred charges	39	-	-	-
Accrued interest	3 167	3 439	57	563
Miscellaneous accounts receivable	564	-	-	-
Total	**5 148**	**4 725**	**150**	**814**

Note 16
Accounts payable — other

Other accounts payable in statement 2.1 consist of the following (in thousands of United States dollars):

	Regular resources		*Other resources*	
	2003	*2001*	*2003*	*2001*
Payable in respect of services received from UNDP	853	2 348	-	-
Country office accounts payable	-	11	-	-
Miscellaneous accounts payable	581	4 392	1 016	305
Total	**1 434**	**6 751**	**1 016**	**305**

Note 17
Unliquidated obligations

The balance of unliquidated obligations in statement 2.1 consists of the following (in thousands of United States dollars):

	Regular resources		*Other resources*	
	2003	*2001*	*2003*	*2001*
United Nations agencies	1 582	859	-	-
UNFPA	32 327	31 305	39 998	53 012
Total	**33 909**	**32 164**	**39 998**	**53 012**

This total is reported as follows:

Biennial support budget	Schedule 5	4 585	5 192	-	-
Implementation of Enterprise Resource Planning System		3 576	-	-	-
Termination payments		1 705	-	-	-
Programme		24 043	26 972	39 998	53 012
Total		**33 909**	**32 164**	**39 998**	**53 012**

Note 18
Reserve for field accommodation

At its thirty-eighth session in 1991, the Governing Council approved the establishment of a reserve for field accommodation at the level of $5 million for the biennium 1992-1993, and authorized the Executive Director to make drawdowns from it for the purpose of financing the UNFPA share of construction costs for common premises under the auspices of the Joint Consultative Group on Policy.

In 1994, $1.1 million was advanced to UNDP towards the cost of construction of common premises. Negotiation and agreement on the disposition of this advance were finalized and the advance recognized as a movement in the reserve in 2003.

Field accommodation expenditures in the biennium ended 31 December 2003 totalled $2.2 million (2001: $0.1 million). In the biennium ended 31 December 2003, $2.2 million (2001: $0.1 million) was transferred from unexpended fund balances to replenish the reserve for field accommodation.

Note 19
Operational reserve

The level of the operational reserve was set at $45 million at the thirty-sixth session of the Governing Council in 1989. At its thirty-eighth session in 1991, the Governing Council decided that the level of the operational reserve should be set at 20 per cent of the regular resources income for each year of the UNFPA work plan.

In the biennium ended 31 December 2003, the operational reserve was increased from $51.7 million to $57.7 million. The calculation for the reserve at 31 December 2003 is based on net contribution income of $288.5 million in the year ended 31 December 2003.

Note 20
Transfers within UNFPA resources

Transfers within UNFPA resources comprise the following (in thousands of United States dollars):

		2002-2003	*2000-2001*
Transfers of funds to regular resources from:			
Cost-sharing		279	-
Trust funds		823	-
	Statement 1.1	1 102	-
Transfers of programme support services charged to:			
Cost-sharing	Statement 1.2	2 540	514
Trust funds	Statement 1.2	9 058	10 965
Junior Professional Officer Programme	Statement 1.2	97	22
Other		45	1
		11 740	11 502
Less: Expenditures incurred in the provision of programme support services	Statement 1.2	(1 349)	(941)
Less: Programme support service income retained in other resources under			
Trust funds and cost-sharing	Statement 1.2	(890)	-
Junior Professional Officer Programme	Statement 1.2	(97)	-
	Statement 1.2	9 404	10 561
Total	**Statement 1.1**	**10 506**	**10 561**

Note 21
Earmarking in respect of procurement services

As in previous biennia, the excess of Procurement Services fee income over expenditures has been recorded as income and is reported under net Biennial Support Budget expenditures (see Statement 1.1 and Note 11). However, the excess of $1.2 million arising from activities in the biennium ended 31 December 2003 (2001: nil) has been earmarked to facilitate resource planning in future years.

Note 22
Special population programmes

At its seventeenth session in 1974, the Governing Council authorized UNFPA to receive cash remittances from Governments and transfer these to designated special population programmes. In the biennium ended 31 December 2003, UNFPA received and transferred cash remittances of $0.7 million (2001: $20.8 million) as follows (in millions of United States dollars):

	Donors		
Recipient	*Norway*	*Belgium*	*Total*
International Planned Parenthood Federation	-	0.2	0.2
The Population Council	0.3	-	0.3
International Union for the Scientific Study of Population	0.1	-	0.1
International Council on the Management of Population Programmes	0.1	-	0.1
Total	**0.5**	**0.2**	**0.7**

At 31 December 2003, UNFPA did not hold any balance of special population programme funds.

Note 23
UNFPA transition process

Included in schedules 6 and 7 are the following trust fund and cost-sharing balances, which relate to the UNFPA transition process (in thousands of United States dollars):

	Fund balance at 1 January 2002	*Contributions*	*Project activities*	*Programme support services*	*Programme expenditure*	*Fund balance at 31 December 2003*
Sweden	109	-	109	-	109	-
UNFIP	663	4 140	4 041	236	4 277	526
United Kingdom	96	-	70	-	70	26
United States Committee for UNFPA	4	-	4	-	4	-
Rockefeller Foundation	-	500	475	25	500	-
Switzerland	-	180	171	9	180	-
Total	**872**	**4 820**	**4 870**	**270**	**5 140**	**552**

Note 24
Global Contraceptive Commodity Programme

At its first regular session of 1996, the Executive Board approved the establishment of the Global Contraceptive Commodity Programme to be managed as a trust fund. In accordance with this decision, $5 million was transferred from unexpended resources to the Global Contraceptive Commodity Programme in 1996. The movements in this Trust Fund are included under "other trust funds" in schedule 6.

At 31 December 2003, stocks of contraceptives at cost of $2.3 million (2001: $0.9 million) were held at manufacturer's premises for UNFPA as part of the Global Contraceptive Commodity Programme. This amount is not reflected in the balance sheet.

Note 25
Non-expendable equipment

In the biennium ended 31 December 2003, the movement in biennial support budget non-expendable property inventory at cost is as follows (in millions of United States dollars):

	Headquarters	*Country offices*
Opening inventory	2.8	8.5
Additions	1.4	1.0
Disposals	(1.5)	(1.1)
Closing inventory	**2.7**	**8.4**

At 31 December 2003, the estimated historic cost of programme non-expendable property as reported by 91 country offices was $46.4 million (2001: $38.1 million reported by 123 country offices).

UNFPA accounting policy with respect to non-expendable equipment is to charge the full cost of additions to the biennial support budget or to programme expenditure in the year of purchase and to record these additions, together with disposals and other movements, in an inventory. The full cost of non-expendable equipment purchased directly by UNFPA or on behalf of UNFPA by its implementing partners has been included in statement 1 of these or previous financial statements. However, the extent to which the disclosure provided on inventory held at the balance sheet date represents total non-expendable equipment to which UNFPA has legal title depends on the integrity of the inventory systems and procedures administered by UNFPA with respect to non-expendable equipment charged to the biennial support budget and the completeness and accuracy of reporting provided to UNFPA by its implementing partners with respect to non-expendable equipment charged to programme expenditure. To this extent, the disclosure provided on non-expendable equipment charged to programme expenditure might be considered indicative only.

Note 26
Pension benefits

UNFPA is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a funded defined benefit plan. The financial obligation of the organization to the Pension Fund consists of its mandated contribution at the rate established by the United Nations General Assembly together with any share of any actuarial deficiency payments under article 26 of the Regulations of the Fund. Such deficiency payments are only payable if and when the United Nations General Assembly has invoked the provision of article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as of the valuation date.

At the time of the present report, the United Nations General Assembly has not invoked this provision.

Note 27
Contingent liabilities

UNFPA has not provided for liabilities in respect of after-service health insurance costs or other end-of-service benefits to which staff members are entitled when they leave the organization.

After-service health insurance

UNFPA engaged the services of William M. Mercer, Incorporated to determine by actuarial evaluation its liability in respect of after-service health insurance costs at 31 December 2003. The results of this evaluation are provided in summary below (in millions of United States dollars):

	At 31 December 2003	
	Present value of future benefits	*Accrued liability*
Gross liability	87.2	68.7
Retiree contributions	17.7	14.2
Net liability	**69.5**	**54.5**

The present value of the future benefits is the discounted value of all benefits to be paid in the future to both current retirees plus active staff expected to retire in the future. The accrued liability comprises that portion of the present value of benefits that has accrued from staff members' entry on duty dates to the valuation date (projected to 31 December 2003). Active staff member's benefits are fully accrued when they reach their date of full eligibility for after-service health insurance benefits.

The next actuarial evaluation is planned for late 2006.

Staff benefits

Based on the information available at 31 March 2004, the contingent liability resulting from termination benefits that UNFPA may be required to pay to its staff members in future years was estimated as at 31 December 2003 to be $5.9 million (2001: $5 million) with respect to repatriation grants and $1.4 million (2001: $1.3 million) with respect to termination indemnity.

Costs relating to annual leave due as at 31 December 2003 are estimated at $6.4 million (2001: $6 million).

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